



QUARTERLY PERFORMANCE REPORT

Contractor: CARANA Corp./Nathan Associates Inc.

Contract # AFP-I-00-00-03-00020 Delivery Order 800

Reporting Period: January 1 to March 31, 2006

Section I - CONTRACTOR'S REPORT

A. Narrative:

1) Contract Delivery Order Final Objective: The Economic Modernization through Efficient Reforms and Governance Enhancement (EMERGE) Activity is to contribute towards USAID/Philippines' Strategic Objective 2, "Investment Climate Less Constrained by Corruption and Poor Governance." The purpose of the activity is to provide technical assistance to support economic policy reforms that will cause sustainable economic growth and enhance the competitiveness of the Philippine economy by augmenting the efforts of Philippine pro-liberalization partners and stakeholders. It has two broad objectives. It will contribute to:

- continuing policy liberalization in the Philippines, and
- increasing the degree of competition in the Philippine economy.

The contractor is responsible for the following major task areas:

- 1) policy analysis and technical assistance;
- 2) administration of grants to NGOs and nongovernmental research institutions;
- 3) administration of the Special Activities Fund (SAF);
- 4) SO2 monitoring, assessment, reporting; and
- 5) public information and consultations.

The 3-year Contract Delivery Order authorized a total level-of-effort of 7,504 workdays, which may be adjusted by written approval of the CTO subject to the delivery order ceiling price of US\$11,333,829. The Delivery Order was signed on August 23, 2004, and expires on August 22, 2007. The remaining balance of the delivery order, as of March 31, 2006, was \$7,025,612.25.

2) Expected Results: Performance monitoring will be based on assessment of results obtained compared to those projected in the implementation work plans. The two stated EMERGE objectives, i.e., increase liberalization and increase competition, are outside the manageable control of the EMERGE contractor. These can only be produced by the people of the Philippines, including government entities and the private sector. Through EMERGE activities, however, the contractor can contribute significantly to understanding and appreciation by

stakeholders, policy makers and interested parties of the costs to the economy (e.g., employment and foreign exchange earnings foregone) from policies or practices that allow economic rents or of monopoly profits from cartel-like arrangements. Thus, performance criteria for annually-approved implementation work plans will concentrate on the effectiveness of the contractor in selecting, designing, implementing and disseminating work designed to increase policy maker, stakeholder and public awareness.

The contractor is to develop specific performance indicators that are linked to policy actions actually taken in the course of the Activity. These indicators will be included in each implementation work plan, with targets specific to each work plan.

3) (a) Current Core Activities: The contract defines (in subsection 4.2.) the major task areas listed in paragraph 1) above. The following activities were expected to be undertaken during this reporting period within each of the major task areas listed below, in addition to routine administrative tasks.

Administrative Tasks

During the first quarter of 2006 EMERGE was to submit the quarterly report for the preceding quarter by January 30 and complete its annual work plan for 2006. It was also to support another Policy Advisory Committee meeting as the committee's secretariat, and to serve as the chair and secretariat of the bi-weekly TIERG coordination meetings (the chair being rotated among the three TIERG members every six months).

TASK 1 - Policy Analysis and Technical Assistance (TA)

The 2006 Work Plan identifies four major economic policy reform themes or purposes that contribute to the overall goals of more productive jobs created and poverty reduced: 1) a sustainable fiscal position, 2) expanded trade and investment, 3) more competitive and efficiently regulated infrastructure, and 4) vibrant banking and capital markets. It identifies 9 EMERGE reform objectives to help the Government of the Republic of the Philippines (GRP) achieve these purposes, and 22 reform results to achieve the EMERGE reform objectives. Twenty-five specific new tasks are then proposed as EMERGE-supported activities, along with a continuation and completion of 27 tasks started in 2005, to help the GRP and the Philippine civil society obtain those results in 2006.

The EMERGE Results Framework is presented in Figure 1. The specific tasks proposed for EMERGE support in the 2006 Work Plan, and the reform objectives and results they target, are listed below, together with the progress expected during this reporting period as discussed in the previous quarterly report. We were not planning to work on all of these tasks during this reporting period, and those that are to be started later are noted in Section 4, Performance during the Quarter.

Figure1. EMERGE Results Framework 2004-2007
As Amended in EMERGE 2006 Work Plan

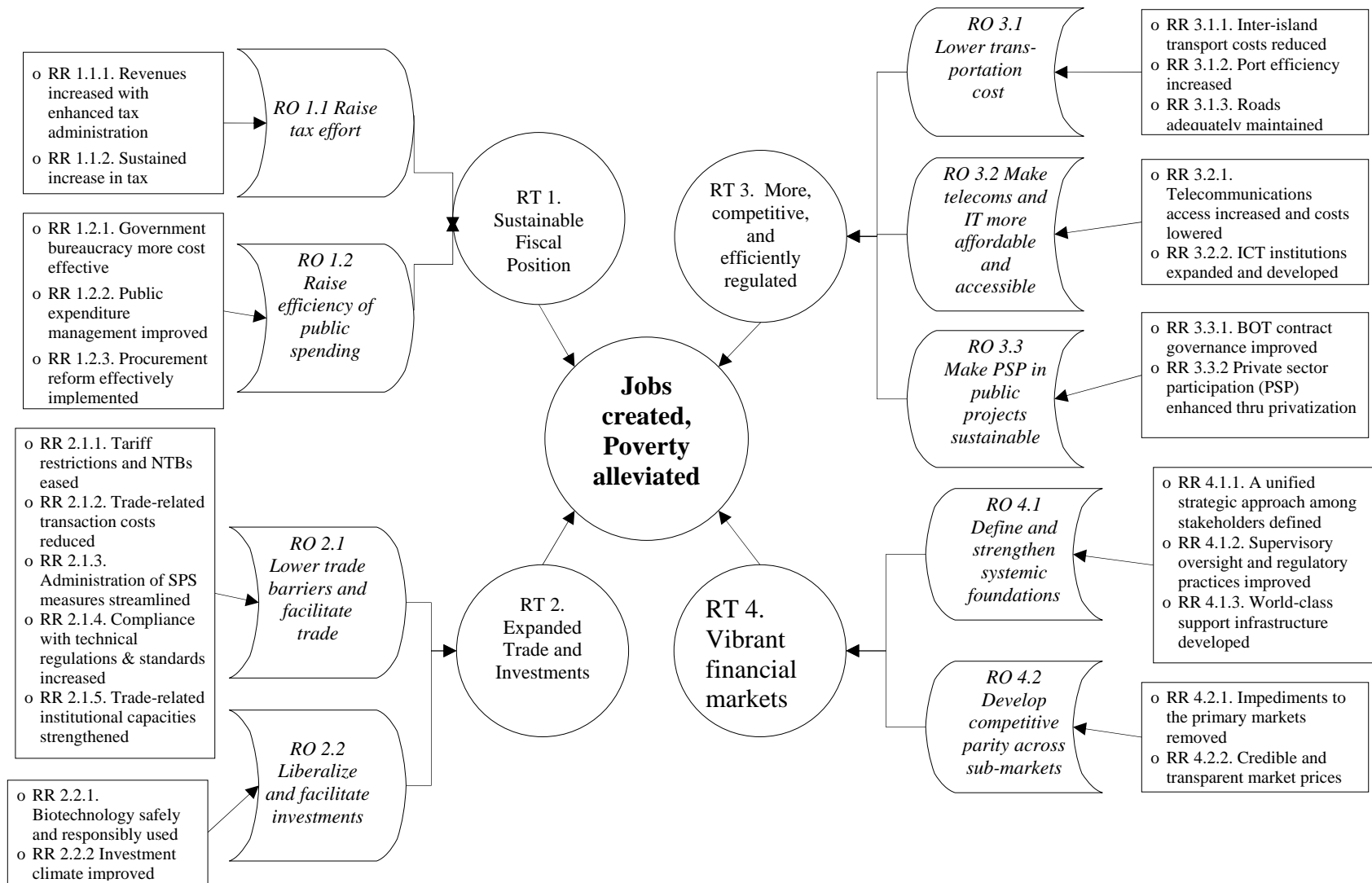


Table 1. EMERGE 2006 Technical Assistance Tasks

Reform Theme (RT)	Reform Objectives (RO)	Reform Results (RR)	Technical Assistance Tasks (Continuing tasks are in shaded cells.)
RT 1. Manageable Fiscal Deficit	1.1 Raise the tax effort.	RR 1.1.1. Revenues increased with enhanced tax administration.	1.1.1.1 Enhancing the BIR's One Time Tax Transactions (ONETTT) System
			1.1.1.3 Improving the administration systems of selected tax measures
			1.1.1.4 Aligning tax rulings with tax code, laws and regulations and streamlining the tax rulings process at the BIR
			1.1.1.5 Establishing integrated systems of motor vehicle registration, land public transport franchising, insurance and taxation
			1.1.1.6 Assessing options for implementing the proof of payment provision in the tax code for excise taxes and updating/consolidating regulations on cigarettes
			1.1.1.7 Designing a more effective tax compliance and verification drive (TCVD)
			1.1.1.8 Upgrading tax accounting practices of the BIR to International Financial Reporting Standards (IFRS)
	1.2 Raise the efficiency of public spending	RR 1.1.2. Sustained increase in tax collection.	1.1.2.2 Installing Office-Level Performance Management System (PMS) at the BIR Regional Offices
		RR 1.2.1. Government bureaucracy more cost effective	1.2.1.1 Improving Agencies' Re-structuring Plans under EO 366
		RR 1.2.2. Public expenditure management improved	1.2.2.1 Institutionalizing a capacity at DBM to prepare a budget strategy paper and use it in planning the budget
			1.2.2.2 Exploring the feasibility of adapting the Performance Assessment Rating Tool of the USG/OMB to the Philippines
			1.2.2.4 Institutionalizing DBM's capability to publish timely information on its website on appropriations and budget releases of infrastructure and development projects of legislators
			1.2.2.5 Improving the public expenditure management system
RT 2. Expanded Trade and Investments	2.1 Lower trade barriers and facilitate trade	RR 2.1.1. Tariff restrictions and Non-tariff Barriers (NTBs) eased	2.1.1.1 Assessment of the economic impact of trade liberalization
		RR 2.1.2. Trade-related transaction costs reduced	2.1.2.3 Analysis of the Revised Kyoto Convention as input to the preparation of a national strategy paper on Philippine compliance with the Convention
			2.1.2.4 (EMERGE will develop other tasks with the Commissioner of Customs in pursuit of this reform result)
		RR 2.1.3 Administration of SPS measures streamlined	2.1.3.1 Improvement of the Department of Agriculture's SPS administration systems
		RR 2.1.4 Compliance with product technical regulations & standards increased and cost of compliance reduced	2.1.4.1 Development and establishment of a standards and conformance (S&C) portal
		RR 2.1.5 Trade-related institutional capacities strengthened	2.1.5.1 Philippine global trade e-learning program
	RO 2.2 Liberalize and facilitate investments	RR 2.2.1 Agriculture biotechnology safely and responsibly used	2.2.1.2 Formulation of Insect Resistance Management (IRM) Strategy and development of regulatory protocols
			2.2.1.3 Institutional capacity building and information, education and communication (IEC) campaign on modern biotechnology
			2.2.1.4 Capacity building for public research institutions to comply with biosafety regulations for transgenic crops
			2.2.1.5 Developing the policy, regulatory, and institutional capacity of DA and BFAD on biopharming
			2.2.2.1 Diagnostic assessment of investment climate in priority sectors
		RR 2.2.2. Investment climate improved	2.2.2.2 Improve business development support services for SMEs
			2.2.2.3 Establishment of feedback mechanisms between investors, their business associations and Philippine government authorities to act on investment bottlenecks
			2.2.2.4 Establishment of mechanisms to increase Philippine stakes in stronger intellectual property rights (IPR) enforcement
			2.2.2.5 Accelerating land titling in the Philippines through a better use of existing survey and land-related records
			2.2.2.6 Manpower and remuneration assessment in the mining industry and improving transparency in payments and utilization of mining taxes

RT 3. More, Competitive and Efficiently Regulated Infrastructure	RO 3.1 Lower transportation cost	RR 3.1.1. Inter-island shipping cost reduced	3.1.1.2 DBP lending policies and guidelines on private sector access to infrastructure funds streamlined
			3.1.1.3 Inter-modal Road-RORO Terminal System (RRTS) Project (Eastern and Palawan nautical highways)
		RR 3.1.2. Port efficiency Increased	The task under this RR is integrated with Task 3.1.1.1
	RO 3.2. Make telecommunications and information technology more affordable and accessible	RR 3.2.1. Telecommunications access increased and costs lowered	3.2.1.1 Laws and regulations supportive of ICT sector development drafted (spectrum management policy, rules and regulations)
			3.2.1.2b Building capacity in NTC to implement competition policy in the ICT sector
		RR 3.2.2. ICT institutions expanded and developed	3.2.2.1c A strategy and plan to expand the use of VOIP and Internet technology in the regions developed (Last Mile Initiative)
	RO 3.3 Make private sector participation (PSP) in public projects sustainable	RR 3.3.1. BOT contract governance improved	3.3.1.1 Development of options to improve build-operate-transfer (BOT) contract governance
		RR 3.3.2 Private sector participation enhanced thru privatization	3.3.2.1 Formulation of strategies for the privatization of state-owned enterprises
RT 4. Vibrant Financial Markets	RO 4.1 Define and strengthen systemic foundations	RR 4.1.1. A unified strategic approach among stakeholders defined	4.1.1.1 Assessing saving patterns and behavior in the Philippines
			4.1.1.2(b)(c) Defining the Philippine Capital Market Reform Agenda
			4.1.1.3(b) Undertaking a policy review of financial sector taxation
		RR 4.1.2 Supervisory oversight and regulatory practices improved	4.1.2.1 TA to the Financial Sector Forum (FSF) to harmonize the supervisory framework of the financial market
			4.1.2.2 TA to the Securities and Exchange Commission (SEC) to enhance the regulation of the securities market
			4.1.2.3 TA to the Philippine Deposit Insurance Corporation (PDIC) to develop its risk management and regulatory capacities
			4.1.2.4 TA to the Bangko Sentral ng Pilipinas Supervision and Examination Sector (BSP-SES) to develop and strengthen the financial governance of the banking sector
			4.1.2.5 TA to the BSP Department of Economic Research (BSP-DER) on inflation targeting and monetary policy
			4.1.2.6 TA to the Insurance Commission (IC) to improve its regulatory and operational efficiency
			4.1.2.7 TA to the Department of Finance to enhance its capital market initiatives and its oversight over GOCCs and GFIs
		RR 4.1.3 World-class support infrastructure developed	4.1.3.1 Defining the Standards and Infrastructure for Cash & Retail Payments
	RO 4.2 Develop competitive parity across sub-markets	RR 4.2.1. Impediments to the primary markets removed	4.2.1.1 TA to develop local government unit (LGU) financing (formerly Task 3.3.1.1)
			4.2.1.2 TA to develop the rural and micro finance markets
		RR 4.2.2. Credible and transparent market prices instilled	4.2.2.1 TA to the Philippine Dealing System Holdings Corporation (PDS Group) to institutionalize the fixed income exchange

Reform Objective 1.1 Increase tax revenues

Reform Result 1.1.1. Improved tax administration

Task 1.1.1.1 Improved One Time Tax Transactions (ONETT) System

On November 23, 2005, the second prototype and first complete draft of the ONETTT application was presented to the Bureau of Internal Revenue (BIR) ONETTT Team. The E-Konek received a good number of useful comments and suggested improvements. E-Konek was to produce a third prototype and presented it to Commissioner Jose Buñag and Finance Secretary M. Teves. But before the Christmas recess, the BIR ONETTT team had not yet set a date for this presentation. Moreover, they suggested additional improvements to the application, and E-Konek Pilipinas continued to work on these through the end of the last quarter. This work was expected to be completed during this reporting period.

Task 1.1.1.2 Revenue effects and structuring of tax administration reform initiatives

This task was completed during the last quarter of 2005.

Task 1.1.1.3 Improved administration systems of selected tax measures

This task is designed to help BIR improve the collection of (a) the document stamp tax (DST) on mandatory third party liability insurance, which vehicle owners must purchase each year when they register their vehicles with the Land Transportation Office (LTO); and (b) common carrier tax that is collected from public land transportation companies. During the last quarter the following proposed tasks were developed and incorporated into the EMERGE 2006 Workplan, the implementation of which was expected to begin the next quarter:

- 1) Streamlining the LTO motor vehicle registration system and the LTFRB system for renewing public land transportation franchises, developing third party information sharing systems between these agencies and the BIR for tax purposes and the Insurance Commission for the implementation of insurance laws.
- 2) Improving the Tax Compliance Verification Drive (TCVD) process and Mobile Revenue Officer System (MROS) of the BIR.
- 3) Assisting the Head Revenue Executive Assistant (HREA) Elvie Vera of the Large Taxpayer Service (LTS) to identify the more cost-effective approach (fuse on stamps vs. barcode) to implement the proof of payment provision in the tax code for cigarette excise taxes and to codify and update a number of related regulations.
- 4) Upgrading the tax accounting practices of the BIR consistent with International Financial Reporting Standards (IFRS). The work covers the training of BIR examiners on the IFRS and the reconciliation procedures, which need to be enabled with a Revenue Regulation.

Task 1.1.1.4 Tax rulings aligned with tax code, laws and regulations to improve tax collection and streamlining the tax rulings process at BIR

Department of Finance (DOF) Undersecretary Emmanuel P. Bonoan requested EMERGE TA to help his office review previous BIR tax rulings for consistency with the law. USAID approved this TA in July 2005. However, Usec Bonoan put this activity on hold following the resignations in July 2005 of former DOF Secretary Cesar Purisima and BIR Commissioner Guillermo Parayno. He told Ramon that out of the 4,000 tax rulings that were reviewed with USAID TA under a previous

project, about 33 are slated to be rescinded and the BIR is asked to comment on a few hundred more that may also be rescinded. During the last quarter, EMERGE talked to Assistant Commissioner James Roldan, who is in charge of the Legal Service, who expressed interest in implementing at least some components of this activity during this quarter.

Task 1.1.1.5 Establishing integrated systems of motor vehicle registration, land public transport franchising, insurance and taxation

This is a new task of the 2006 Work Plan derived from Task 1.1.1.3 above.

Task 1.1.1.6 Assessing options for implementing the proof of payment provision in the tax code for excise taxes and updating/consolidating regulations on cigarettes

This is a new task of the 2006 Work Plan derived from Task 1.1.1.3 above.

Task 1.1.1.7 Designing a more effective tax compliance and verification drive (TCVD)

This is a new task of the 2006 Work Plan derived from Task 1.1.1.3 above.

Task 1.1.1.8 Upgrading tax accounting practices of the BIR to International Financial Reporting Standards (IFRS)

This is a new task of the 2006 Work Plan derived from Task 1.1.1.3 above.

<i>Reform Result 1.1.2. Sustained increase in tax collection</i>
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Task 1.1.2.1 Individual Performance Management System at the BIR Installed

This task was completed in November 2005.

Task 1.1.2.2 Installing Office-Level Performance Management System (PMS) at the BIR Regional Offices

This is a new task in the 2006 Work Plan, as a follow-on to Task 1.1.2.1.

<i>Reform Objective 1.2 Raise the efficiency of public spending</i>

<i>Reform Result 1.2.1. Government bureaucracy more cost effective</i>
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Task 1.2.1.1 Improving Agencies' Re-structuring Plans under EO 366

Department of Budget and Management (DBM) Undersecretary Pascua requested EMERGE TA to include the services of 22 sector/sub-sector experts (one for each of the major departments/ agencies in the restructuring program), 2 financial experts and 2 organizational experts to help put together the parameters for the review of the restructuring plans of the monitored government owned and controlled corporations (GOCCs), pursuant to the IRR for Executive Order (EO) 366 (on government restructuring), which was officially issued and published on May 20, 2005. The Development Academy of the Philippines (DAP), which EMERGE engaged to provide the requested TA to DBM, mobilized sector experts to provide advice to DBM on sector priorities and how the EO 366 rationalization plans of various government agencies can be improved. It has presented to the Composite Team the respective experts' views of sector priorities, and the experts have commented on the respective restructuring plans of the agencies that have completed their draft plans. This work was to continue into the next quarter.

<i>Reform Result 1.2.2. Public expenditure management improved</i>
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Task 1.2.2.1 Institutionalizing a capacity at DBM to prepare a budget strategy paper and use it in planning the budget

This is a new task in the 2006 Work Plan.

Task 1.2.2.2 Exploring the feasibility of adapting the Performance Assessment Rating Tool of the OMB/USG to the Philippines

Undersecretary Laura Pascua also requested EMERGE to provide U.S. consultants to help the DBM learn about the Performance Assessment and Review Tool (PART) used by the US Government Office of Management and Budget (OMB) to assess the performance of Departments. The TOR for this TA was drafted in April 2005, however it was postponed to early 2006 at the request of Usec Pascua, because the DBM staff was busy with 2006 budget preparation and the government restructuring program.

Task 1.2.2.3 Working Model to Predict Cash Inflows Installed at DBM

The EMERGE team hired Mr. Jem Armovit to work on a model to predict cash inflows for DBM. It is needed to allow DBM to issue notices of cash allotments quarterly instead of monthly. His engagement started on March 16, 2005, and was completed in September 2005. It introduced a methodology for forecasting revenues collected by the BIR and the Bureau of Customs (BOC), together making up about 99% of tax revenues and about 87% of total national government revenues. Undersecretary Laura Pascua, who requested this activity, subsequently requested EMERGE to train selected staff of DBM on how to use the model. A Terms of Reference (TOR) for the proposed training program was submitted to USAID. This was put on hold pending a clarification from Usec Pascua on the use of the model. A key issue is whether or not the model will be *solely* used for predicting the government's cash inflows. EMERGE and USAID raised concerns on the possible limited usefulness of the model and the risk to the government if such a model was the one used in deciding whether the DBM should issue Notices of Cash Allotments from a monthly to quarterly basis. In a meeting with EMERGE in December, Pascua explained that her main reason for asking EMERGE to help develop this capacity at DBM is so the DBM can reduce the risk of the government spending beyond its actual revenues. In 2002, the projections of DOF and BTr were substantially off and this resulted in a build up of cash payables. The statistical model that EMERGE developed would not be the only basis for DBM's decision. It would be used to produce DBM inputs into an inter-agency cash programming exercise. On this basis, Pascua reiterated her request. EMERGE planned request USAID approval of the training TA during the next quarter.

Task 1.2.2.4 Institutionalizing DBM's capability to publish timely information on its website on appropriations and budget releases of infrastructure and development projects of legislators

This is a new task in the 2006 Work Plan.

Task 1.2.2.5 Improving the public expenditure management system

This is a new task in the 2006 Work Plan.

Reform Objective 2.1 Lower trade barriers and facilitate trade

Reform Result 2.1.1. Tariff restrictions and non-tariff barriers (NTBs) reduced

Task 2.1.1.1 Assessment of the economic impact of trade liberalization

This is a new task in the 2006 Work Plan.

<i>Reform Result 2.1.2. Trade-related transactions costs reduced</i>
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Task 2.1.2.2 Customs Risk Management System Improved

A TOR for the Center for Economic Policy Research (CEPR) to implement this task was approved by USAID on June 7. The TA was composed of three modules: (i) liquidation and billing module; (ii) risk management organization module; and (iii) post entry audit group institutional module. The consultant team started work the last week of June and was expected to finish in October 2005. However, the EMERGE TA and the activities of the CEPR consultant team at the Bureau of Customs (BOC) changed direction due to the change in leadership at the bureau. This affected the team's deliverables in all three modules of the purchase order (PO). The TOR was designed based on the TA requested by the then Commissioner Alberto Lina, who resigned on July 8. But then Acting Commissioner Alex Arevalo expressed his preference for TA activities that differed from those identified in the TOR. In response to his request, EMERGE restructured the scope of work of the CEPR team. EMERGE drafted amendments to the TOR and gave them to CEPR for comments. However, Bing Alano, President of the CEPR, proposed to cut the PO after the third tranche, given the uncertainty of Arevalo's commitment to the fourth tranche activities. In a meeting with EMERGE and USAID, CEPR also discussed the problems encountered by the consultant team in the course of their work at BOC due to the change in leadership. The parties agreed to put closure on the TA after CEPR completed the deliverables for the third tranche. EMERGE discussed this plan with Arevalo in a meeting on Nov 24 and he agreed. He and EMERGE agreed to consider further TA in 2006.

CEPR submitted the revised outputs on the liquidation and billing module as well as the first draft of the diagnostic report on risk management at the BOC. These outputs comprised the third tranche deliverables. At the end of last quarter EMERGE was reviewing the reports and was to inform CEPR whether revisions were necessary. The PO was expected to be closed early this quarter upon EMERGE acceptance of the revised reports.

Task 2.1.2.3 Analysis of the Revised Kyoto Convention as input to the preparation of a national strategy paper on Philippine compliance with the Convention

This is a new task in the 2006 Work Plan.

Task 2.1.2.4 (EMERGE will develop other tasks with the Commissioner of Customs in pursuit of this reform result)

Task design to be determined after further discussions with the Commissioner of Customs.

<i>Reform Result 2.1.3. Administration of SPS measures streamlined</i>
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Task 2.1.3.1 Improvement of the Department of Agriculture's SPS administration systems

This TA was requested by DA Undersecretary Serrano to streamline the administration of sanitary and phyto-sanitary (SPS) measures at the DA. A TOR for the Cesar Virata and Associates, Inc., (CVAI) to implement the TA was approved by USAID on July 1. The work excludes SPS measures on fisheries and fishery products because the EU has a current technical assistance activity on SPS with the Bureau of Fisheries and Aquatic Resources. The TA was expected to be completed in January 2006. However, CVAI requested a one-month no-cost extension of their contract. The TA was therefore expected to be completed in February 2006.

EMERGE also held an initial discussion with Undersecretary Serrano on the coverage of Module 2 of the TA at the DA to be implemented in 2006, the details of which were expected to be finalized early next year.

Reform Result 2.1.4. Compliance with product technical regulations & standards increased and cost of compliance reduced

Task 2.1.4.1 Development and establishment of a standards and conformance (S&C) portal

This is a new task in the 2006 Work Plan.

Reform Result 2.1.5. Trade-related institutional capacities strengthened

Task 2.1.5.1 Philippine global trade e-learning program

The first on-line session of the program opened on Nov 16 with 357 participants. However, 24 of these dropped from the program before the end of December 2005. The Memorandum of Agreement between DTI and the IATP was signed on Nov 29, after some delay due to conflicting schedules. Two online introductory courses were completed this quarter: (i) Maximizing eLearning; and (ii) International Trade and the Philippines. The Project Steering Committee (PSC) decided to open another class sometime in mid-January 2006 to fill in the remaining slots in the program.

Reform Objective 2.2 Liberalize and Facilitate Investments

Reform Result 2.2.1 Agriculture biotechnology safely and responsibly used

Task 2.2.1.1 Field Testing Protocols for Transgenic Crops and Principles Underlying the Regulation of GMO-Containing Processed Foods Developed

This task was completed in the first quarter of 2005. As of December 31, 2005, the draft Bureau of Food and Drugs (BFAD) guidelines on the labeling of processed foods containing GMOs were still being reviewed by the Policy Division of the Department of Health (DoH) for final approval. While there are no pending issues on the technical substance of the guidelines, the division chief wants further consultations on them.

Task 2.2.1.2 Formulation of Insect Resistance Management (IRM) Strategy and development of regulatory protocols

USAID approved a PO on May 17 for the International Support for the Acquisition of Agri-biotechnology Association (ISAAA) to implement this task for the DA and the Bureau of Food and Drugs (BFAD) to strengthen the government's regulatory framework on biotechnology. The TA is to be completed in May 2006. For this reporting period, the team was to help the DA finalize draft protocols on field testing and BFAD guidelines on standards for substantial equivalence.

Task 2.2.1.3 Institutional capacity building and information, education and communication (IEC) campaign on modern biotechnology

A PO for the Biotechnology of the Philippines (BCP) to provide TA to the DA and the Bureau of Food and Drugs (BFAD) to strengthen the government's mechanism for effective and efficient regulation of biotechnology was approved by USAID on May 31. The TA is composed of institutional capacity building and an IEC campaign. It is to be completed in May 2006. For this quarter, the BCP was expected to continue conducting IEC activities to improve public awareness

and acceptance of biotech and institutional capacity building activities for BFAD and DA personnel to strengthen their technical expertise on biotech-related activities.

Task 2.2.1.4 Capacity building for public research institutions to comply with biosafety regulations for transgenic crops

This is a new task in the 2006 Work Plan.

Task 2.2.1.5 Developing the policy, regulatory, and institutional capacity of DA and BFAD on biopharming

This is a new task in the 2006 Work Plan.

<i>Reform Result 2.2.2 Investment climate improved</i>
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Task 2.2.2.1 Diagnostic assessment of Investment Climate in priority sectors

On December 2, 2004, it was agreed with the Board of Investments (BOI) that a technical assessment of the investment climate should apply supply chain and transaction cost analyses, be results driven, and be conducted in real-time, as information may be discovered in tranches. The coconut industry was selected to be the first to undergo the diagnostic study. The TOR was first submitted to USAID for approval in May 2005. The objective of the TA is to improve the investment climate in coconut-based industries producing non-traditional coconut products, by using value chain analysis to identify bottlenecks, policies, infrastructure deficiencies and other constraints to the competitive, profitable production of such products. This is intended to support BOI's effort to re-engineer itself from an agency promoting investments with fiscal incentives to one focused on improving the investment climate and reducing transaction costs of investors. On Oct 11, the USAID approved the TOR and the TA was expected to be completed in February 2006. EMERGE organized and mobilized a consultant team to conduct studies for each of the three major non-traditional coconut product classifications, namely: (i) functional food – virgin coconut oil, protein isolate, skim milk, flour, and coconut water; (ii) industrial – cochin oil, bio-diesel, and activated carbon; and (iii) agricultural – coir, geotextile and coco peat. Based on the results of the diagnostic studies, the consultant team was to prepare: (i) short and medium term action plans for the government to improve the investment climate; and (ii) investment folios for potential investors for each of the non-traditional products.

BOI Governor Consuelo Perez and DTI Assistant Secretary for Regional Operations Carissa Cruz requested EMERGE TA next to help improve the investment climate in the ICT-based services sector. During this quarter, EMERGE was to coordinate with BOI to prepare the concept paper and the TOR for this activity.

Task 2.2.2.2 Improve business development support services for SMEs

This is a new task in the 2006 Work Plan.

Task 2.2.2.3. Establishment of feedback mechanisms between investors, their business associations and Philippine government authorities to act on investment bottlenecks

This is a new task in the 2006 Work Plan.

Task 2.2.2.4 Establishment of mechanisms to increase Philippine stakes in stronger intellectual property rights (IPR) enforcement

This is a new task in the 2006 Work Plan.

Task 2.2.2.5 Accelerating land titling in the Philippines through a better use of existing survey and land-related records

This is a new task in the 2006 Work Plan.

Task 2.2.2.6 Manpower and remuneration assessment in the mining industry and improving transparency in payments and utilization of mining taxes

This is a new task in the 2006 Work Plan.

Reform Objective 3.1 Lower transportation cost

Reform Result 3.1.1 Inter-island shipping cost reduced

Task 3.1.1.2 DBP lending policies and guidelines on private sector access to infrastructure funds streamlined

EMERGE expected to start work on this task in the 1st quarter of 2006, since Development Bank of the Philippines (DBP) priority has been on the promotion of the RRTS (Task 3.1.1.3).

Task 3.1.1.3 Inter-modal Road-RORO Terminal System (RRTS) Project (Eastern and Palawan nautical highways)

A SOW on RORO shipping was drafted for TA to the Development Bank of the Philippines (DBP) on the preparation of an investment folio covering the Road RoRo Terminal System (RRTS) connections on the nautical highway. EMERGE and DBP finalized the TOR and identified the members of the team of consultants (Ruping Alonzo, Gudmund Rognstand and Asaf Ashar). EMERGE sent a request for approval of the TA to USAID on December 22, 2005.

Reform Result 3.1.3 Roads adequately maintained

Task 3.1.3.1 Road Board Assisted on Road User Charges law implementation

EMERGE consultants CVirata and Associates presented their assessment of the Road User Fund to the Road Board in a meeting held on December 12, 2005. They reported that the Road Board accepted their findings and are basing their agency restructuring plans on the team's recommendations. **(Thus an EMERGE performance milestone was achieved.)** At the end of last quarter the team was finalizing its report based on comments made by the Road Board and EMERGE.

Reform Objective 3.2 Make telecommunications and IT more affordable and accessible

Reform Result 3.2.1 Telecommunications access increased and costs lowered

Task 3.2.1.1 Laws and regulations supportive of ICT sector development drafted and e-Government strategy developed (spectrum management policy, rules and regulations)

The NTC issued Memorandum Circular 05-08-2005 (5 August 05) re: Voice over Internet Protocol (VoIP). Under these new rules, VoIP was formally classified as a Value-Added Service (VAS). This is a **major indicator of GRP success** due in part to EMERGE TA, which itself has thereby achieved an important **performance milestone**. Subsequently, NTC issued Memorandum Order 3-11-2005, "Guidelines for the Registration of VoIP Providers and Resellers," on November 23, 2005. With these guidelines, Memorandum Circular 05-08-2005 declaring VoIP as a VAS and opening it up for entry by companies other than telecommunication companies, will now be implemented. **Another EMERGE performance milestone for this task was thus achieved.** EMERGE was to continue its technical support to CICT and NTC under this task.

Task 3.2.1.2a Competition policy for ICT sector formulated and implemented

EMERGE consultants presented a draft consultative document for competition policy for the telecommunications sector to the NTC on September 21, 2005. Round table discussions of the document were held to solicit comments from stakeholders. **Another Performance Milestone** – On December 18, 2005, the NTC officially released its consultative document on competition policy, for which EMERGE had provided technical assistance in research and preparation. designed to foster greater competition in the telecommunications industry. During the next quarter, EMERGE was expected to support NTC stakeholder workshops and/or seminars to disseminate the consultative document and elicit comments.

Task 3.2.1.2b Building capacity in NTC to implement competition policy in the ICT sector

This is a new task in the 2006 Work Plan.

Reform Result 3.2.2. ICT institutions expanded and developed

Task 3.2.2.1c Strategy and plan to expand the use of VOIP and Internet technology in the regions developed (Last Mile Initiative Program)

The Last Mile Initiative Program (LMIP)-Philippines drafted by EMERGE consultant Atty. Alampay was submitted to USAID/Washington by USAID/Philippines and approved. USAID/Philippines asked EMERGE to implement it. It commenced in September 2005. By the end of last quarter, community e-centers (CeCs) in Catmon, Alcantara, Sogod all in Cebu; Maitum and Malapatan both in Saranggani; Manolo Fortich in Bukidnon have been established. EMERGE consultants were expected to continue to meet with potential private sector and LGU partners to establish more CeCs at selected sites during this quarter.

Task 3.2.2.2 Formulating a new Road Map for the development of the Philippine ICT sector

This is a new task in the 2006 Work Plan.

Reform Objective 3.3 Make Private Sector Participation (PSP) in Public Projects Sustainable

Reform Result 3.3.1 BOT Contract Governance Improved

Task 3.3.1.1 Development of options to improve build-operate-transfer (BOT) contract governance

The Board of Investments (BOI) requested TA to help draft amendments to the Build-Operate-Transfer (BOT) Law, after a public hearing on the IRR amendments called attention to the need to amend the law itself to take care of issues that could not be addressed by mere amendment of the IRR. EMERGE submitted a request to USAID for approval of a legal team to draft BOT Law amendments on August 10, 2005, in preparation for the next step. It was agreed that EPRA would handle the workshops to disseminate information on the revisions to the BOT IRR and generate comments and suggestions on amending the BOT Law. The EMERGE team of experts, headed by Dante Canlas, would conduct the technical analysis and prepare a report recommending proposed amendments to the BOT Law. EMERGE made slight revisions in the TOR and sent to USAID a new request for approval on December 15, 2005.

Reform Result 3.3.2 Private sector participation enhanced thru privatization

Task 3.3.2.1 Formulation of strategies for the privatization of state-owned enterprises

At the request of DOF Undersecretary Jay Singson, EMERGE prepared two draft TORs for (a) the preparation of an inventory of government assets for privatization and (b) assistance for the

privatization of specific government assets. EMERGE and DOF agreed to field as their consultants investment bankers Ray Davis and Sunny Sevilla, who would be assisted by a legal expert, Atty. Job Ambrosio. EMERGE sent to USAID a request for approval of this TA on December 16, 2005. The TOR for an asset inventory was delayed due to a fruitless search for suitable consultants.

Reform Objective 4.1 Define and strengthen systemic foundations (of banking & capital markets)

Reform Result 4.1.1 A unified strategic approach among stakeholders adopted

Task 4.1.1.1 Technical Assessment of saving patterns and behavior

This assessment was identified as a priority task by the Capital Market Development Council (CMDC). The Bangko Sentral ng Pilipinas (BSP) also requested TA on consumer saving/finance issues. BSP Deputy Gov. Espenilla requested additional consideration for the consumer finance survey to be conducted simultaneously with the demographic assessment and he is now the primary counterpart. The objective is to identify the demographic variables affecting saving at the household level. This TA was expected to commence this quarter.

Task 4.1.1.2b&c Defining the Philippine Capital Market Reform Agenda

BSP Governor Rafael Buenaventura requested TA for this task and a separate letter was sent by the Executive Director of the Bankers Association of the Philippines (BAP), concurring with the draft SOW. It was approved by USAID at the end of May and the consultant began work on June 1. The draft report on Core Principles and Enabling Environment was completed and distributed to the counterparts (BSP and BAP) as well as to capital market stakeholders through the CMDC. A workshop for Module 1 (Financial Market Core Principles and An Enabling Environment for the Capital Market) was held on October 24, 2005, at the BSP Executive Business Center. In attendance were the highest-level stakeholders in the financial market, including former Governor Buenaventura, current BSP Gov. Tetangco, Deputy Gov. Espenilla, members of the Monetary Board, Finance Secretary Teves, the most senior officers of the Securities and Exchange Commission, the Insurance Commission, and the Philippine Deposit and Insurance Corporation, as well as the presidents/CEOs of the different private sector organizations in the financial market. The presentation and module-content were very well received with all of the stakeholders manifesting a keen interest in actively participating in modules 2 and 3 of this initiative, which was expected to begin in the next quarter.

Task 4.1.1.3b Policy Review of Financial Sector Taxation

The Zambrano & Gruba Law Office began work on this task the first week of June. The initial findings of the consultants were expected to be ready about the middle of September. However, the consultants were requested by the counterpart (CMDC) to meet with each and every capital market organization to hear views on the contentious issue of financial taxation. While the legal review by the consultants was completed on schedule, the time spent in meeting with market players forced the consultants to request a postponement of their mid-term workshop from late-September to the 3rd week of October. A subsequent, more formal workshop was conducted in December. The surprising finding of the consultants was that the non-neutrality of financial taxation in the Philippines stems from only 4 or 5 issues. The next phase of the consultants' work was to focus on comparisons with other economies of interest on the tax issues identified.

Reform Result 4.1.2 Supervisory oversight and regulatory practices improved

Task 4.1.2.1 TA to the Financial Sector Forum (FSF) to harmonize the supervisory framework of the financial market

This is a new task in the 2006 Work Plan. It is a place holder for a specific task EMERGE might develop affecting the members of the Financial Sector Forum (FSF) jointly. The Financial Sector Forum (FSF) was created in 2004 through an MOU between the Bangko Sentral ng Pilipinas (BSP), the Securities and Exchange Commission (SEC), the Insurance Commission (IC) and the Philippine Deposit Insurance Corporation (PDIC). The issues faced by these financial supervisors are cross-cutting in nature, and the FSF provides a regular venue for them to coordinate their efforts and streamline pending issues. The GRP success indicator would be the establishment of a more unified financial governance framework that would apply to all financial market sectors. Requests for technical assistance have been received from the four supervisory agencies independently, but not yet directly from the FSF. Discussions will be undertaken to explore possible TA requests from FSF itself, if any.

Task 4.1.2.2 TA to the Securities and Exchange Commission (SEC) to enhance the regulation of the securities market

This is a new task in the 2006 Work Plan. It is a place holder for a specific task the SEC indicated it would request from EMERGE which would address:

- Risk-based capital framework for SEC-covered institutions and agents;
- Training on risk management for identified stakeholders;
- Rules on the use of uncertificated securities and securities ownership in conjunction with RA 8792 (Electronic Commerce Act)

These reforms would usher in the further development of the securities industry in tandem with evolving international practice and developments.

EMERGE will continue to coordinate with SEC, particularly its Market Regulation Department, to develop any specific assistance requests under this broad policy reform area.

Task 4.1.2.3 TA to the Philippine Deposit Insurance Corporation (PDIC) to develop its risk management and regulatory capacities

The draft SOW for improving PDIC's Off-Site Bank Rating Model (OBRM) has gone through several major revisions without closure. The difficulty in finalizing this SOW stems from the preference of PDIC to directly build a risk forecasting module into the OBRM. Conventional thinking suggests that such an approach would take the task well beyond the OBRM issue and therefore poses difficulty in project management and content. EMERGE held a meeting with officials of PDIC in December to thresh out the technical details, and a new SOW draft will be prepared accordingly. EMERGE expected to begin work on this task during the next quarter.

Task 4.1.2.4 TA to the Bangko Sentral ng Pilipinas Supervision and Examination Sector (BSP/SES) to develop and strengthen the financial governance of the banking sector

BSP Deputy Governor Nestor A. Espenilla Jr. asked for further assistance so that the initial report of Mark Bates, Real Estate Appraisal consultant, can be translated into a strategic roadmap with specific timelines. Mr. Bates submitted this roadmap in late November and DG Espenilla accepted it. DG Espenilla believes, however, that many of the essential reforms are beyond the purview of the BSP, and he has begun to build a coalition of stakeholders to mobilize the roadmap. EMERGE expected to carry some of this work forward in the next quarter.

Task 4.1.2.5 TA to BSP Department of Economic Research (DER) on Inflation Targeting and Monetary Policy

Continuing TA from Fr. McNelis, covering 4 on-site trips over a period of one year, was structured at the request of BSP and approved by USAID on October 11, 2005. Fr. Paul McNelis made his first of 4 trips in the follow-up engagement December 8-23 and worked with the staff of the BSP Center for Monetary and Financial Policy. McNelis planned another trip to Manila in March 2006.

Task 4.1.2.6 TA to the Insurance Commission (IC) to improve its regulatory and operational efficiency

This is a new task in the 2006 Work Plan.

Task 4.1.2.7 TA to the Department of Finance to enhance its capital market initiatives and its oversights over GOCCs and GFIs

This is a new task in the 2006 Work Plan.

Reform Result 4.1.3 World-class support infrastructure developed

Task 4.1.3.1 Defining the Standards and Infrastructure for Cash & Retail Payments

In this new task of the 2006 Work Plan, EMERGE assistance is sought by BSP to assess the impact on macro/monetary policy of the repo market and payments coursed through non-mainstream channels such as through telephone companies, as well as the systemic stability/operational risk concerns that are normally raised as a result of institutionalizing such connectivity.

Reform Objective 4.2 Develop competitive parity across sub-markets

Reform Result 4.2.1. Impediments from the primary markets removed

Task 4.2.1.1 TA to develop local government unit (LGU) financing (formerly Task 3.3.1.1)

DOF Undersecretary Roberto Tan sent EMERGE a request for TA to develop guidelines for program lending to local government units (LGUs). DOF MDFO approved the draft TOR prepared by EMERGE. It was previously presented to the Policy Governing Board of the Municipal Development Fund for approval. EMERGE and MDFO identified Raymund Fabre and Erlito Pardo as consultants for the technical assistance. EMERGE sent a request for approval of the technical assistance to USAID in October 2005.

Task 4.2.1.2 TA to develop the rural and micro finance markets

This is a new task in the 2006 Work Plan. The first specific activity under this task is an evaluation of the Credit Policy Improvement Project (CPIP). Based on the outcome and recommendations of the assessment, EMERGE expects to design specific TA activities to help develop rural and micro-finance markets.

Reform Result 4.2.2. Credible and transparent market prices instilled

Task 4.2.2.1 TA to the Philippine Dealing System Holdings Corporation (PDS Group) to institutionalize the fixed income exchange (the Philippine Dealing and Exchange Corporation, or PDEX)

The draft ISC report by consultant Valerie McFarlane was submitted, outlining the various issues and recommended solutions for the launch of the Public Market later in the year. EMERGE and PDEX conducted a technical review of the report and the final Full Report was received in November and accepted by the counterpart. The launch of the Public Market trading did not materialize in November as originally envisioned as the policy issue of connectivity to the Bureau

of Treasury system was not resolved by BTr officials until late 2005. The public market board was then expected to be launched in two stages, the first in April and the second in July 2006, at which times the technical recommendations of the ISC consultant were expected to be implemented (**and thus another EMERGE performance milestone would be achieved**).

PDEx subsequently requested EMERGE to provide third-party experts to evaluate the network infrastructure *vis-à-vis* international best practice and to conduct vulnerability assessment exercises, and EMERGE expected USAID approval to carry this work forward during the next quarter.

TASK 2 - Administration of Grants to NGOs and Nongovernmental Research Institutions

With CTO approval, EMERGE resources are to be used to award grants to NGOs and nongovernmental research institutions for activities in EMERGE technical areas. Through the Institutional Grant for Policy Development Program (IGPD), a companion activity of EMERGE, USAID/Philippines is embarking on an initiative to develop local capacity in economic liberalization policy analysis and formulation within NGOs and universities. EMERGE grant-making activities are to be complementary to and closely coordinated with these IGPD grantees of the Targeted Intervention for Economic Reform and Governance (TIERG) Program.

The Grants and Special Activities Fund (SAF) Manager developed a grants manual for EMERGE, which was submitted for USAID approval along with a request for a waiver to award grants under the contract. It was later discovered that the SEGIR/Privatization IQC, under which the EMERGE delivery order was issued, did not authorize its contractors to award grants. As a result, USAID/W had to amend the IQC before EMERGE could be authorized to provide grants. CARANA finally received the amendment to the SEGIR IQC in October allowing contractors to award grants. EMERGE revised its Grants Manual based on USAID approval of the manual submitted by CARANA and submitted it for USAID/Philippines for review and acceptance on December 8, 2005.

Grant Activity: Access for Competitiveness and Trade

A draft TOR for Phase I of this proposed TA was completed, based on an unsolicited grant proposal from PACT, and personnel were being recruited for the proposed positions. PACT was having difficulty finding qualified people for the proposed positions. EMERGE received and reviewed the ACT proposal from PACT on December 8. For lack of needed details, PACT was requested to make an oral presentation on December 22. The revised proposal elaborated on the establishment and maintenance of industry databases for about 30 selected industries. The Committee found the revised proposal lacking in sufficient details for the Committee to accept on technical merit. The proposal is being revised by PACT, and EMERGE hoped to be able to send the proposal to USAID for funding approval in the next quarter.

Grant Activity: Mining

EMERGE collaborated with PACT to draft an acceptable TOR for increasing the social acceptability of mining in the Philippines through a balanced mineral-mining industry development, in response to an unsolicited proposal from PACT. The TA was to be implemented by PACT with grant funding from EMERGE when grant authority was finally received. On December 20, 2005, the EMERGE committee reviewed the proposal from PACT for a balanced mining industry in Mindanao, aimed at creating an enabling environment for the development of balanced mineral

mining in nine sites in Mindanao through advocacy activities and formulation of policy reforms at the local and national levels. The Review Committee found the proposal quite ambitious and likely difficult to implement. A letter communicating the results of the review and suggesting a more focused design was to be sent to PACT.

TASK 3 - Administration of the Special Activities Fund (SAF)

Through the SAF EMERGE is to be able to fund TA and studies for SO2 objectives and other SOs; conferences, workshops, and short-term training, often as a cost-share; study tours and long-term training; commodity procurements for partner organizations; and procurement of skills and services from individuals and institutions. The USAID CTO is responsible for approving use of SAF monies, within the PAC's SAF operating guidelines.

The TIERG Policy Advisor Committee (PAC), in its first meeting on November 27, 2004, chaired by Socio-Economic Secretary and NEDA Director General Romulo L. Neri, suggested and approved three areas for EMERGE assistance that did not appear in the 2004 work plan but supported its overall objectives: mining, land reclamation, and agro-reforestation. The land reclamation consultant has completed his work. The consultants for mining and land reclamation started work in early 2005 and finished in September 2005. EMERGE worked with PACT to determine what TA could be helpful in the proposed agro-reforestation program.

On Customs Risk Assessment.

As of end of December 2005, the final deliverables from the vendor, CEPR, were being reviewed to help in assigning an accurate valuation of the deliverables already received in preparation for a pre-termination of the PO after payment of the third tranche.

APEC Conference on Biosafety

In December, EMERGE was requested to share in the cost of conducting the APEC Biosafety Conference in January. Cecille started coordinating with Mr. Jeff Bowyer of DAI for funding arrangements for the hotel and travel and per diem for selected representatives from participating countries.

SAF Activity: Re-forestation/Agroforestry

EMERGE helped PACT finalize a TOR for the proposed TA on implementing and institutionalizing the Agro-forestry Puno ng Buhay Program in the Autonomous Region of Muslim Mindanao (ARMM). EMERGE submitted the draft PACT/SAMASA grant proposal on agro-forestry to USAID for a technical review on an informal basis. EMERGE expected to receive the results of its review from USAID early next quarter.

SAF Activity: WTO e-Learning Program

This activity is now in the EMERGE work plan and is discussed above and below under Work Plan Task 2.1.5.1.

TASK 4 - SO2 Monitoring, Assessment, Reporting

EMERGE is responsible for consistently monitoring and assessing progress in meeting USAID SO2 performance indicators. It is to regularly collect and analyze data on indicators and make formal

semi-annual appraisals of progress in meeting SO2 targets. As the USAID SO2 team requires, EMERGE is also to prepare special reports, case studies, success stories, presentations and audio-visual materials to better analyze and communicate the state of reform issues in the Policy Agenda of USAID/Philippines-EMERGE. SO2 monitoring tasks include understanding the SO2 team's requirements and monitoring system; organizing a program for routine SO2 performance indicator monitoring; and responding to regular and special requests for SO2 performance analyses.

TASK 5 - Public Information and Consultations

EMERGE public information activities have two purposes: to support partners and counterparts with their own information dissemination and public advocacy and to establish EMERGE's transparency. To support partners EMERGE is to assist with media strategies and materials and can help organize technical conferences on reform issues. To support partners and to establish transparency, EMERGE set up a website to inform the reform community and the general public about project goals and activities and current reform issues. It is to be periodically updated with latest news and features from various projects of EMERGE.

The Public Information Manager produced a camera-ready EMERGE brochure that is ready for printing. The printing has been delayed, however, as the Project waits for USAID approval following new directives on branding from Washington.

3) (b) Current Buy-Ins: The EMERGE Delivery Order does not authorize or contemplate buy-ins, and there are no other delivery orders thereunder outstanding or contemplated.

3) (c) Subcontracting Activities During the Quarter: No new subcontracting activities were initiated during this quarter.

4) Performance during the Quarter:

Administrative Tasks

EMERGE submitted the quarterly report for the preceding quarter on January 30. It completed its annual work plan for 2006 and presented it for review and approval to the TIERG Policy Advisory Committee (PAC) at its meeting on March 1, 2006. The committee made some suggestions to improve the focus of a few of the planned TA activities, and indicated its approval of the plan, with the suggested refinements. EMERGE continued to serve as the PAC secretariat, and as the chair and secretariat of the bi-weekly TIERG coordination meetings throughout this reporting period. The latter will rotate back to EPRA during the next quarter, but EMERGE is to continue serving as the secretariat of the TIERG PAC and to organize its next meeting, which should take place in June.

EMERGE recruited and obtained USAID/Regional Contracting Officer (RCO) approval (on February 8, 2006) for a new Fiscal Sustainability team leader, Dr. Romulo "Jun" Emmanuel Mendoza Miral, Jr., replacing Dr. Rosario G. "Chat" Manasan, who resigned from that position.

During the next quarter, EMERGE must complete the recruitment process for a new SO2 Monitoring Manager and obtain USAID/RCO approval for the new staff member. With the resignation of the Banking and Capital Markets team leader effective April 7, we must also find a replacement for him.

TASK 1 - Policy Analysis and Technical Assistance

Task 1.1.1.1 Improved One Time Tax Transactions (ONETTT) System

The third prototype of the ONETTT application is nearing completion. After the presentation of the initial version of the ONETTT application to RDO 039-South Quezon City on February 8 and to the BIR team on February 22, the E-Konek software design team proceeded to finalize the application incorporating feasible enhancements. On March 28, 2006, its features were presented to the new Deputy Commissioner for Operations, Virginia Trinidad, who expressed her appreciation and full support for the project. The last two weeks of March saw several meetings on the finalization of roll-out procedures. Acceptance Testing will be performed by two teams, namely, by the Technical Team of the Quality Assurance (QA) Department and by the Functional Team. The application will be piloted in RDO 039. Demonstration of the final ONETTT application was scheduled for April 5, 2006.

Task 1.1.1.3 Improved administration systems of selected tax measures

Four separate new tasks have been spun off of this one, tasks 1.1.1.5, 6, 7 and 8. No additional activities have yet been identified under this rubric.

Task 1.1.1.4 Tax rulings aligned with tax code, laws and regulations to improve tax collection and streamlining the tax rulings process at BIR

On January 23, Ramon met with Finance Undersecretary Gaudencio Mendoza, who replaced Emmanuel P. Bonoan, to discuss the TA on tax rulings, which involves (a) streamlining the BIR tax rulings process and training BIR staff assigned to process tax rulings applications, and (2) a public seminar on the streamlined tax rulings process for the benefit of tax practitioners. Undersecretary Mendoza remarked that he supports the continuation of the project. Its implementation is awaiting the return of Assistant Commissioner James Roldan of the BIR Legal Service, who went to a week-long tax conference in Cambodia and then took a month's leave of absence to go to the US. The matter will be discussed with ACIR Roldan when he comes back in April.

Task 1.1.1.5 Establishing integrated systems of motor vehicle registration, land public transport franchising, insurance and taxation

On January 12, representatives of the Asian Institute of Management (AIM)-Hills Governance Program, together with Ramon, briefed Commissioner Buñag on the proposed grant to AIM-Hills. The objectives of the undertaking are (a) to improve the collection of taxes and fees from motor vehicle registration, land public transportation franchising, and vehicle insurance through third party information sharing, and (b) to reduce transaction costs and business risks in the registration and insurance of motor vehicles, and franchising and insurance of land public transportation through streamlining and integration processes.

The Commissioner expressed his appreciation of the project and signed a joint letter of request for the assistance to the EMERGE Chief of Party. Other signatories included Assistant Secretary for the Land Transportation (LTO) Anneli Lontoc, Land Transportation Franchising and Regulatory Board (LTFRB) Chairperson Ma. Elena Bautista, and Insurance Commissioner Evangeline Escobillo. The TOR of the project was submitted by EMERGE to USAID on March 10 and was approved on March 20. Mobilization for project implementation started upon the notice of award.

Task 1.1.1.6 Assessing options for implementing the proof of payment provision in the tax code for excise taxes and updating/consolidating regulations on cigarettes

After a series of meetings with Head Revenue Executive Assistant Elvie Vera of the BIR, a draft scope of work for TA to BIR for implementing the proof of payment provision of excise tax on cigarettes was prepared. The overall purpose of the TA is to enhance the capacity of the BIR to properly assess and collect the correct amount of excise tax from cigarette and tobacco, while ensuring a level playing field for all industry players, thereby improving taxpayer compliance and satisfaction.

The TA will have two tracks. The first track will consist of an industry and systems study that will enable the BIR (a) to acquire a better understanding of the cigarette and tobacco industry and have an estimate of potential excise tax revenue, (2) to select the system of proof of payment that would be most cost-effective in the collection of the proper amount of excise tax while ensuring a level playing field in the industry; and (3) to determine the necessary institutional, procedural, manpower, logistical, and reportorial requirements to effectively implement the chosen system of proof of payment. The second track will consist of reviewing, harmonizing, and codifying all issuances and regulations pertaining to excise tax cigarettes and tobacco products. The draft SOW was submitted to HREA Elvie Vera for review and a meeting to finalize the document was scheduled for the first week of May.

Task 1.1.1.7 Designing a more effective tax compliance and verification drive (TCVD)

This technical assistance aims to complete the enhancement of the TCVD and Mobile Revenue Officer System (MROS) that was started by De la Salle University (DLSU) in June 2005, upon the request of then BIR Commissioner Guillermo Parayno and with financial support from the Yuchengco Foundation. The project was not completed due to inadequate funding. Commissioner Mario Bunag wanted to pursue the project with assistance from EMERGE.

The issuance of RMO 9-2006 prescribing guidelines and procedures for TCVD on March 22, 2006, notwithstanding, the BIR believes that additional improvements could still be made in the aspect of automation, database enhancement, and performance monitoring. These additions are included in the draft TOR discussed in a meeting on March 22, which was attended by Deputy Commissioner Lilia Guillermo and Vicky de Leon of BIR-ISOG, representatives from BIR-ROG, Dr. Caslon Chua and Dennis Beng-Hui of DLSU, and EMERGE. The suggestions and comments raised in the meeting were incorporated in the final draft of the TOR. The TA is targeted to start on the third week of May, assuming USAID approval.

Task 1.1.1.8 Upgrading tax accounting practices of the BIR to International Financial Reporting Standards (IFRS)

After a series of meetings with several BIR officials, BIR Commissioner Mario Bunag made a formal request for a TA to adapt the tax accounting practices of the BIR to the IFRS. EMERGE prepared a SOW that was used for soliciting proposals from prospective consultants. The TA involves a study of how the current tax accounting practices of the BIR could be upgraded to IFRS, while conforming to the national tax code. The study will help the BIR in issuing a revenue memorandum order to prescribe the guidelines for implementing the changes. Consultants will also develop a BIR-tailored IFRS training module and train trainers from among selected BIR staff.

Two accounting firms responded to the request for proposal, namely, Conchita Manabat and Co. and SGV Company. On March 8, the two firms made formal presentations before the selection

committee consisting of BIR and EMERGE representatives. SGV Company ranked first in the technical evaluation, and the review of the financial aspect of the proposal proceeded. Implementation is expected to begin in the next quarter.

Task 1.1.2.2 Installing Office-Level Performance Management System (PMS) at the BIR Regional Offices

Starting January, meetings with Commissioner Bunag, other BIR officials, and the EMERGE consultants who worked on the BIR Large Taxpayer Service (LTS) PMS were held to discuss the roll-out of the PMS to the regional and other offices of the BIR. The new set of LTS officials, led by ACIR Merlinda Ordoyo, was briefed by the EMERGE consultants on the TA for BIR-LTS PMS. Ramon also met with Ms. Vera Songwe of the World Bank to discuss the possibility of co-financing the PMS project from the remaining funds of ASEM 2, which was granted an extension upon the Bank's request.

To facilitate the contracting process and not cause the project undue delay, the TA was divided into stages. The first wave, which will run from April to June 2006, consists of the installation of an office-level PMS at the RDO level and the enhancement of PMIS of LTS. The rest of the project stages are currently being designed.

The project TOR and request for TA were sent to USAID on March 9, and approved on March 20. The consultants, many of whom are the same individuals who worked on the PMS of LTS, held their first organizational meeting on March 29 in the office provided them by the BIR on the 9th floor of the BIR building.

Task 1.2.1.1 Improving Agencies' Re-structuring Plans under EO 366

The DAP and its sector experts continued to advise on the restructuring plan of government agencies. They presented their views on sector priorities and contributed to the reviews of agency rationalization plans on two levels, namely, the DBM composite team review and the Executive Committee review. The agency rationalization plans were assessed based on the DBM/DAP framework for plan evaluation, nine completed sector profiles, and a number of preliminary reports prepared by the experts. Nine sector profiles have been submitted to DBM and EMERGE, which await the submission of about 13 more sector profiles.

As of the end of March, 29 agencies have submitted their rationalization plans to DBM. In a meeting with EMERGE, Director Castillo of DBM expressed her apprehension that the original schedule of the implementation of the rationalization programs may not be met. Instructions from the Executive Secretary allow for maximum consultation with departments/agencies and to focus on impact mitigation on personnel to be affected by the rationalization programs.

Task 1.2.2.1 Institutionalizing a capacity at DBM to prepare a budget strategy paper and use it in planning the budget

It was learned that the World Bank has been providing assistance to DBM in institutionalizing a medium term expenditure framework (MTEF) in the preparation of the national government budget. Part of implementing the MTEF is the formulation of the Budget Strategy Paper (BSP), which the DBM is planning to introduce in the budget preparation for FY2007. The World Bank has hired a consultant based in Washington, who intermittently comes to the Philippines to give lectures, conduct workshops, and provide advice to DBM staff on the preparation of the BSP. The DBM has completed the draft of its first BSP and are hoping that they could acquire more training to improve their capability in this area.

At the Philippine Development Forum (PDF) in Tagaytay, Undersecretary Pascua re-affirmed to Ramon DBM's request for EMERGE TA to train the Fiscal Planning Bureau staff on the component sections of the BSP. After rushing completion of the first version of the BSP for the 2007 Budget Call, the staff involved would have time for such training.

Task 1.2.2.2 Exploring the feasibility of adapting the Performance Assessment Rating Tool of the OMB/USG to the Philippines

Undersecretaries Pascua and Relampagos remarked that a brief visit of an expert who could brief them about PART would be useful. The PART consists of a set of questions covering four areas of assessment of the effectiveness of specific federal programs, namely, purpose and design; strategic planning; management; and results and accountability. An agency's response to the questions results in numeric scores that are translated into qualitative program ratings of: Effective, Moderately Effective, Adequate, Ineffective, or Results Not Demonstrated. The ratings and specific findings of the PART are used to make decisions on budgets and policy. The DBM is well advised to be seriously considering the adoption of PART. It provides an incentive and accountability mechanism that could drive the line agencies to seriously implement the various public expenditure reform measures (SEER, OPIF, MTEF) that have already been introduced. EMERGE is updating the draft SOW for this undertaking.

Task 1.2.2.3 Working Model to Predict Cash Inflows Installed at DBM

While DBM might still be interested in training on the use of the model developed to predict cash inflows, the agency has not followed up on its request for TA on this matter. According to Mr. Jem Armovit, who developed the model, Undersecretary Pascua is considering whether it would be able to take into account the impact of the recently passed Reformed Value Added Tax (RVAT) law and other revenue administrative measures currently in the pipeline. EMERGE will hold further discussions on this request during the next quarter.

Task 1.2.2.4 Institutionalizing DBM's capability to publish timely information on its website on appropriations and budget releases of infrastructure and development projects of legislators

Upon the urgent request of former DBM Secretary Romulo Neri, and based on the information provided by Ms. Mariliza Reyes, consultant to DBM Secretary Neri, the head of the Legal Service of DBM, and the acting head of the DBM's BISS, EMERGE prepared an SOW for the TA and a request for proposals. Two prospective vendors submitted proposals which were evaluated by a team consisting of EMERGE and DBM representatives. Negotiation with the winning vendor is deferred pending USAID approval.

At the PDF in Tagaytay, Ramon informed DBM officials about USAID's concerns regarding this task. Specifically, the website could only be good as the quality of information that DBM will publish in it and the commitment of DBM to institutionalize it. Undersecretary Relampagos noted that the TA should help the DBM streamline the process of generating, processing, and releasing of information prior to public dissemination in general and publication in the website in particular. The website could be integral to promoting budget transparency and accountability; however, sans generation and processing of quality budgetary data prior to publication, these goals could not be supported by the website. EMERGE will revise the TOR accordingly.

Task 1.2.2.5 Improving the public expenditure management system

No specific activities have as yet been undertaken or planned under this task.

Task 2.1.1.1 Assessment of the economic impact of trade liberalization

This new task is in response to the request of Commissioner Edgardo Abon, Chairman of the Tariff Commission, to assess the economic impact of the tariff reform program and the country's participation in regional trade agreements. The Commissioner has been often asked by stakeholders, during tariff hearings, about the impact of the country's trade liberalization program, and there is continual pressure to increase tariff protection and roll back other trade reforms. The result of the assessment will be used by the Tariff Commission to explain and give feedback to the stakeholders. The TOR for this task will be prepared next quarter.

Task 2.1.2.2 Customs Risk Management System Improved

The Center for Economic Policy Research (CEPR) consultant team completed their deliverables for the third tranche, both for the liquidation and billing module and risk management module. EMERGE prepared the final valuation of the purchase order (PO), which was approved by CEPR after EMERGE incorporated the latter's comments. The PO was closed at the end of March, following the decision and agreement made during the November 10 meeting of USAID, EMERGE and CEPR to close it after the completion of the 3rd tranche deliverables.

Task 2.1.2.3 Analysis of the Revised Kyoto Convention as input to the preparation of a national strategy paper on Philippine compliance with the Convention

The Export Development Council (EDC) requested EMERGE TA for an analysis of the Revised Kyoto Convention (RKC). The scope of work (SOW) will focus on assessing the RKC in three areas: (i) its applicability to the Philippine situation; (ii) the compliance or non-compliance of the Philippines on those standards of the RKC which are applicable to the Philippines; and (iii) for those the Philippines is already compliant, whether or not there is a need for the Philippines to improve its compliance; and for those the country is not compliant, whether there is a need for the country to be compliant. The reports that will be generated from this TA will be used by AKIEBS-PhilExport PACT as inputs to the drafting of a national strategy paper on Philippine compliance with the RKC.

EMERGE prepared the TOR. Preparation of the budget is still incomplete, pending the approval by the USAID of the rates of the consultants as proposed by AKIEBS-PhilExport PACT. Since EMERGE and PACT will be sharing in funding the workdays of the consultants, EMERGE will use the same consultancy rates as PACT. The TOR is expected to be approved by USAID next quarter. The task is expected to be completed in six weeks upon approval of the TOR.

Task 2.1.2.4 (EMERGE will develop other tasks with the Commissioner of Customs in pursuit of this reform result)

During this quarter, EMERGE started to identify TA tasks at the BOC. Initial meetings were held by Ramon with BOC Deputy Commissioner for Import Assessment and Operations Group Rey Nicolas. Nicolas was designated by Commissioner Morales as his point person with respect to EMERGE TA. In addition to having had a practical experience in customs operations as a District Collector for the Port of Manila, Nicolas tends to approach customs administration problems with an analytical perspective. He cited the need for a specific product description and capturing specific information that ironically gets lost in the automated import assessment process. He supports the idea of coming up with an ex-ACOS database for this information, which his office could then mine to improve its operations in import assessment, including the VRIS, SGL, and liquidation and billing. He proposed legally enabling a supplemental import declaration. The two also discussed operational problems with respect to transshipment cargoes and constructive exports, which

manifest in a leakage of duty free imports, destined for exports or intended to remain in economic zones, to the domestic market without appropriate payment of duties and taxes.

For next quarter, EMERGE will continue to discuss the agency's TA needs with the BOC, identify specific tasks and prepare the TOR for USAID approval.

Task 2.1.3.1 Improvement of the Department of Agriculture's SPS administration systems

This task was completed by the end of March. In February the CVAI-SPS study team submitted their complete drafts on the diagnostic study on streamlining SPS administration at the DA. EMERGE reviewed the reports; and the study team revised the reports based on EMERGE comments. The salient features of the findings of the diagnostic study include the following:

- (i) Responsibility for SPS regulation is fragmented among several agencies, each with its own legal mandate, and reporting to different DA Undersecretaries;
- (ii) There are overlapping responsibilities as well as gaps, notably in food safety. in these legal mandates;
- (iii) The processes used in enforcing regulations are not well documented, allowing much discretion on the part of the enforcer;
- (iv) Border enforcement is leaky, leaving much room for imported products to slip into the country without the appropriate inspection and clearance; and
- (v) Laboratories abound but not one is well-equipped and supported.

A significant performance milestone for this TA is the adoption by the Department of Agriculture one of the recommendations by the diagnostic study team—to reorganize the SPS administration under two agencies— in its rationalization plan pursuant to EO 366. One agency will be for standards setting and the other for enforcing regulations.

Undersecretary Fred Serrano is requesting additional EMERGE TA, this time (i) to prepare and implement a plan of action to institutionalize the two regulatory organizations, which is planned to take effect in 2008; and (ii) to streamline and harmonize SPS business procedures. EMERGE has started work on how to structure this second phase of the TA. This second phase of the TA is important to producing actual results on improved SPS administration. The TOR will be completed early next quarter.

Task 2.1.4.1 Development and establishment of a standards and conformance (S&C) portal

This task is in response to the joint request of Dir. Jesus Motomull of the Bureau of Products and Standards (BPS), the Export Development Council (EDC), PhilExport and the Philippine Chamber of Commerce and Industry (PCCI). The portal is to be a web-based facility that will host the technical regulations and product standards of the Philippines and other WTO member countries. The TA is expected to improve the access of Philippine exporters to the global market by increasing their compliance with technical regulations and products standards requirements. Similarly, by knowing and complying with Philippine standards and regulations, the country's importers are assured entry of their imports to the country and thus, reduce their business transaction costs.

During this quarter, EMERGE met a number of times with the BPS, EDC, PhilExport and PCCI to structure the TA. The implementation of the TA comes in three phases: Phase 1- specification of the functional and system design of the S&C portal; Phase 2- development and establishment of the portal; Phase 3- institutional arrangements to sustain and enhance it. EMERGE has drafted the TOR for Phase 1 and expects to send it to USAID for approval in the next quarter.

Task 2.1.5.1 Philippine global trade e-learning program

As of the end of this quarter, 417 e-learners have enrolled in the program. However, only 313 are active participants because 46 have asked to be de-listed from the program while 58 have zero log-ins. Two online core courses were implemented this quarter: “WTO Basics: Introduction to the Multilateral Trading System,” which ended on March 3, and “Basic Principles of the Multilateral Trading System,” which is still on-going.

The Project Steering Committee (PSC) met twice during the quarter (Jan 25 and March 7). The PSC is composed of DTI Undersecretary Thomas G. Aquino, DTI Assistant Secretary Dita Mahar-Mangahas, Myrna Austria of EMERGE, and Gao Pronove and Gil delos Reyes of the Institute for Agriculture and Trade Policy (IATP) Secretariat. A major issue discussed in these meetings was the lower number of participants (313) compared to the target (400), despite the several recruitment drives undertaken by the IATP Secretariat. The problem is not a lack of interest in the PGTEP, but scholarship guidelines of some government agencies that prevent their staff from joining the program. The current guidelines do not allow staff of these agencies to be nominated to a scholarship pending the approval of a nomination for another scholarship or if they are currently on scholarship. This particular guideline prevented staff of these agencies from joining the program because either (i) they have a pending nomination or (ii) they hope to be nominated in a scholarship other than the trade e-learning program, for which they would not be qualified if they were on a scholarship under the PGTEP. To address this problem, the Project Steering Committee decided to call the program “training” rather than “scholarship.” With this change, the PGTEP e-learners will not be subject to the government scholarship guidelines.

During the quarter, EMERGE coordinated with the IATP Secretariat on the following activities: (i) launching new recruitment drives in order to replace drop outs and inactive participants; (ii) preparation of promotional program to give some incentives/rewards to e-learners who successfully complete their on-line courses; (iii) initial preparation for the face-to-face workshops scheduled for July; and (iii) selection of participants in the program to be interviewed by Ronald Jabal for an article he will write on the PGTEP. EMERGE also reviewed the reports of the IATP Secretariat for the second tranche payment.

Activities for next quarter will include: (i) continued implementation of the on-line courses; and (ii) final preparations for face-to-face workshops (i.e. speakers, facilitators, venue and program).

Task 2.2.1.1 Field Testing Protocols for Transgenic Crops and Principles Underlying the Regulation of GMO-Containing Processed Foods Developed

This task was completed during the first quarter of 2005. During the last three quarters of 2005, the draft BFAD guidelines on the labeling of processed foods containing GMOs were languishing under review by the Policy Division of the Department of Health (DoH) for final approval. However, a new development transpired during the first quarter of 2006. The Biotech Coalition of the Philippines (BCP), the vendor for this TA, was able to determine that it is not necessary for DOH to issue the guidelines, although it can do so as a Department Order. Instead, the BFAD director can issue them. **The guidelines are now expected to be approved and issued by the BFAD Director during the next quarter, and will constitute an EMERGE performance milestone for this task.**

Task 2.2.1.2 Formulation of Insect Resistance Management (IRM) Strategy and development of regulatory protocols

During the quarter, the ISAAA worked with the BPI Biotech Core Team to draft the DA guidelines and protocols on field testing and commercial propagation of genetically modified (GM) crops. The

draft guidelines and protocols were given, for review and comments, to concerned technical experts from both the government and private sectors (other DA biotech regulators and the National Committee on Biosafety of the Philippines), public research institutions (Philippine Rice Research Institute, Institute of Plant Breeding, National Institutes of Molecular Biology and Biotechnology, and International Rice Research Institute), and private technology developers (Monsanto, Syngenta, Pioneer). The draft protocols were revised based on the comments from these institutions. The final draft guidelines and protocols were then presented during the Workshop-Seminar on the Safe Field Testing of GM Crops held in Baguio City on March 27-29 among concerned stakeholders from the government and private sectors.

On insect resistance management (IRM), **two performance milestones were achieved** during the quarter. *First*, DA Secretary Panganiban issued Special Order No. 7 on January 3, 2006, creating the IRM Advisory Team (IRMAT), which shall serve as the scientific and technical advisory body on IRM matters to the DA. The IRMAT will oversee the implementation of the new strategy for Bt corn as contained in DA Memorandum Circular (MC) No. 8 Series of 2005 “Strengthening the DA’s Science-based Insect Resistance Management for Bt Corn.” The circular was issued on Dec 14, 2005. *Second*, on 8 March 2006, Sec Panganiban issued MC No.1 Series of 2006, updating the insect resistance management monitoring procedural guidelines and reporting formats to be used this Bt corn planting season by industry technology developers. Both MC No 8 Series of 2005 and MC No. 1 Series of 2006 used as inputs the results of the nationwide survey on the feasibility/acceptability of the 80-20 Bag-in-bag IRM strategy for BT corn. EMERGE helped support the survey.

For next quarter, the ISAAA will work on the following: (i) finalize the draft guidelines and protocols on field testing based on the results of the Baguio workshop and endorse these to the DA Secretary for formal issuance; and (ii) draft the BFAD guidelines on standards identity preservation, including that for export certification. These two deliverables will complete the EMERGE PO with ISAAA, which is expected to end in May 2006.

Task 2.2.1.3 Institutional capacity building and information, education and communication (IEC) campaign on modern biotechnology

During the quarter, the BCP continued to conduct (i) IEC activities to improve public awareness and acceptance on biotech, and (ii) institutional capacity building activities for BFAD and DA personnel to strengthen their technical expertise on biotech. The accomplishments included 6 institutional capacity building activities and 3 IEC activities, held in various provinces and cities around the country.

For next quarter, the BCP will continue to conduct IEC and institutional capacity building activities. The EMERGE PO to BCP will be completed in May 2006.

Task 2.2.1.4 Capacity building for public research institutions to comply with biosafety regulations for transgenic crops

This new task is in response to the request of the Institute for Plant Breeding (IPB) of the University of the Philippines at Los Banos for EMERGE TA in conducting field trials of a locally developed Bt eggplant. EMERGE will identify details of this TA next quarter.

Task 2.2.1.5 Developing the policy, regulatory, and institutional capacity of DA and BFAD on biopharming

This new task is part of the TA EMERGE is providing to the DA and BFAD. Its objective is to help the Philippines develop policy guidelines and institutional capacity for the regulation and

eventual commercialization of plant-made pharmaceuticals. No activity was implemented this quarter. For next quarter, EMERGE will coordinate with DA and BFAD on how to structure this TA and prepare the corresponding TOR for USAID approval.

Task 2.2.2.1 Diagnostic assessment of Investment Climate in priority sectors

The ICP-coco study team on improving the investment climate for the coconut industry held several meetings, interviews, and focus group discussion with the industry's stakeholders, both from government and private sectors. The team also completed their initial draft reports. The team presented their initial drafts in two consultative workshops held on Feb. 7 and Feb. 14. Participants to these dialogues included businessmen, industry associations and government agencies.

EMERGE completed its review of the draft reports and sent its comments back to the study team for appropriate action. The EMERGE team agreed that the consultant reports may have to be annexed and a consolidated report culled from them in order to better articulate the key messages of the diagnostic assessment, particularly the action plan.

The EMERGE team and Mr. Pablito Villegas met with Mr. Raul Angeles, who is the Executive Director of the Industry Development Group at the Board of Investments (BOI-IDG), to discuss the next steps on what to do after the completion of the diagnostic study. Mr. Angeles said that his office is very interested in shepherding the implementation of the action plan to improve the investment climate and showcasing the emerging coconut businesses to potential investors. He added that EMERGE should submit the final reports and action plan to his office.

Mr. Angeles echoed a theme that the TA team leader, Mr. Endaya, and consultant Mr. Villegas started to work on. That is, one key strategy for boosting the emerging coconut industries is to link them to the bigger coconut oil export industry. The latter is going through challenges brought about by EU's insistent demands for clean coconut oil. The present technology in the country exposes the product to aflatoxin contamination. But this can be changed through cold processing, which in turn will boost processing of coco-coir and activated carbon. EMERGE staff will pursue this with the coconut oil industry and BOI.

For next quarter, the study team is expected to finish revising its draft reports, and EMERGE will then submit them to the BOI.

Task 2.2.2.2 Improve business development support services for SMEs

This new task is in response to the issue raised by NEDA Secretary Neri in the May 13, 2005, TIERG Policy Advisory Committee meeting on the need to design effective credit mechanisms for SMEs. No activity was implemented this quarter. EMERGE will work on the details of this task and prepare the TOR next quarter.

Task 2.2.2.3. Establishment of feedback mechanisms between investors, their business associations and Philippine government authorities to act on investment bottlenecks

This task is in response to an unsolicited proposal from the American Chamber of Commerce (AmCham)-Philippines for a grant to undertake a set of activities aimed at improving the investment climate and increasing investment in the country. The project has three components: (i) networking and business monitoring; (ii) policy research and analysis; and (iii) investment climate reform advocacy. EMERGE negotiated an appropriate TOR that supported its contract SOW, and the grant was approved by USAID on February 22.

Task 2.2.2.4 Establishment of mechanisms to increase Philippine stakes in stronger intellectual property rights (IPR) enforcement

Intellectual Property Office (IPO) Director-General Adrian Cristobal, Jr., requested EMERGE TA to establish the mechanisms to increase Philippine stakes in stronger IPR enforcement in the country. The IPO would like to develop strategies and projects that would allow Filipinos to see the benefits to the economy of better IPR enforcement. No activity was implemented this quarter. EMERGE will coordinate with the IPO the preparation of the TOR next quarter.

Task 2.2.2.5 Accelerating land titling in the Philippines through a better use of existing survey and land-related records

This is a new task in response to a request of Department of the Environment and Natural Resources (DENR) Undersecretary M. Gerochi and Land Management Bureau (LMB) Director E. Tiamson for EMERGE TA to help LMB accelerate land titling in the country. Three meetings were held this quarter, basically to gather information on land titling and identify possible TA activities in support of faster land titling. The first meeting was held on January 10 at the request of EMERGE and USAID, with Undersecretary Gerochi, Director Tiamson and Mr. Henry Paje. The second meeting was held January 17 with Ramon Clarete and Atty. Tiamson. The third meeting, held on March 13, was at the request of USAID to meet with AusAid to learn about its LAMP 2 project. Present in this meeting were: Tyler Holt and Tet Robielos of USAID, Ramon and Myrna of EMERGE, Clive Charles of the US Embassy Economic Section, Mr. Angus Barnes and Erica Geronimo of AusAid, and Mr. Ian Lloyd, head of the LAMP 2 project.

Initial TA activity identified in these meetings was the designing and preparation of a building plan for storing survey and related land records. EMERGE will prepare the TOR next quarter.

Task 2.2.2.6 Manpower and remuneration assessment in the mining industry and improving transparency in payments and utilization of mining taxes

This is a new task in response to the request by Executive Vice-President of the Chamber of Mines of the Philippines for EMERGE TA to help the Chamber assess the manpower requirements and remuneration of the mining industry and improve the transparency of payments to LGUs and their utilization of mining taxes. No activity was implemented this quarter. EMERGE will work on the structure of this TA next quarter and prepare the TOR.

Task 3.1.1.2 DBP lending policies and guidelines on private sector access to infrastructure funds streamlined

There is no movement in this task because of the priority given by DBP to accomplishing Task 3.1.1.3. In the next quarter, EMERGE, however, shall work with DBP staff in drafting the SOW for the proposed task.

Task 3.1.1.3 Inter-modal Road-RORO Terminal System (RRTS) Project (Eastern and Palawan nautical highways)

As of the end of this quarter the request for TA was still with USAID for review/approval. At USAID's request EMERGE reviewed the resumes of two more local candidates for the port specialist TA and again recommended the American Asaf Ashar as more qualified for the job. (Note: The task and the proposed team were finally approved by USAID on April 11, 2006, and the work is expected to begin during the next quarter.)

Task 3.1.3.1 Road Board Assisted on Road User Charges law implementation

C. Virata and Associates finalized and submitted its report on the Road User Fund to EMERGE. This task is now finished.

Task 3.2.1.1 Laws and regulations supportive of ICT sector development drafted and e-Government strategy developed (spectrum management policy, rules and regulations)

EMERGE expects to work on the proposed TA to revisit and improve NTC spectrum management policy, rules and regulations in the last quarter of 2006. NTC's current priority is to develop its competition policy framework for the ICT sector (Task 3.2.1.2a).

Task 3.2.1.2a Competition policy for ICT sector formulated and implemented

EMERGE provided support to a forum on the Imposition of Significant Market Power Obligations that was held at the U.P. School of Economics on March 15, 2006. The forum highlighted various issues such as interconnection, the timeliness of the imposition of Significant Market Power Obligations for the dominant players, the need for a proper understanding and identification of the market and a rigorous definition of market dominance. EMERGE and NTC started preparations for a video conference on the Imposition of Significant Market Power Obligations (SMPO) with telecommunications experts in Australia and Indonesia that will enable the NTC commissioners to learn from the experience of those experts on various aspects of competition policy. The next step is to assist NTC draft a Consultative Document on SMPO in June 2006.

Task 3.2.1.2b Building capacity in NTC to implement competition policy in the ICT sector

NTC is still pre-occupied with the formulation of a competition policy framework for the sector and has not made a specific capacity building request to EMERGE.

Task 3.2.2.1c Strategy and plan to expand the use of VOIP and Internet technology in the regions developed (Last Mile Initiative Program)

Performance Milestone. The Free and Open Source Software (FOSS) CD Kit, an ICT literacy project of the CICT, was officially launched and distributed during the ICT week on March 23, 2006. The CD compiles free and open source applications, including word processing, spreadsheet, presentation and web authoring tools. A Creative Works Series CD containing open source resources for drawing, image manipulation, 3D modeling and animation was also launched the same day. Developed with assistance from the EMERGE Last Mile Initiative Program (LMIP), both CDs will make available useful applications even to CeCs that do not yet have access to the Internet, and will benefit 140 i-Schools throughout the country.

Other LMIP activities include the establishment of more CeCs, development of training modules in computer/internet literacy, enterprise development, center management and network and troubleshooting courses, web development module and graphic design.

The LMIP team successfully conducted a 2-week pilot CeC staff and trainers training for the Manolo Fortich CeC from February 13 to 24, 2006. The training focused on community development, enterprise development, center operations management and computer training. Comments both from the participants, and the LGU officials were highly positive, and initial indications are that the model is replicable in other CeCs.

Mini Success Story: With LMIP assistance and advice, this CeC is developing a jobs database and is already using the facilities to enable online, VoIP-enabled video interviews. Using the CeC, the LGU was able to arrange for a Taiwan-based company to interview 50 job applicants, 10 of which were eventually offered jobs.

In the next quarter, the LMIP team will work with Save the Ifugao Terraces Movement to set up a CeC in Kiangnan, Ifugao, that will focus on promoting ecotourism and organic farming. It will also

work with CICT and the Department of Education to pilot a web board for use in iSchools. The Web Board will allow teachers to develop and share course outlines online. Pilot testing and training for 24 schools are expected in the next quarter.

Task 3.2.2.2 Formulating a new Road Map for the development of the Philippine ICT sector

Performance Milestone. Private sector consultations on the CICT Strategic Roadmap Initiative officially began with a consultative meeting with the ICT stakeholders last March 22, 2006, at the Bahia Ballroom of the Hotel Intercontinental in Makati City. The consultative meeting was attended by ICT partners in the academe (Mindanao State University, Mapua Institute of Technology, the University of the Philippines) and in the private sector (including Microsoft, Accenture, IBM, Smart Communications). All four commissioners of CICT's four main groups (Human Capital, Business Development, Information Infrastructure and e-Government) presented initial plans, programs, result areas and strategies which had been formulated with technical and facilitation assistance from the EMERGE CICT Strategic Plan Team.



EMERGE received USAID approval on February 6 for the TA to the CICT on the development of a 5-year strategic roadmap for the ICT sector. The team was hired and work started soon thereafter. EMERGE also provided support to a forum organized by CICT to discuss its draft Strategic Plan (Road Map). In the next quarter, EMERGE will assist the CICT groups flesh out their respective visions, goals, strategies and projects, and finalize the five year strategic Road Map and launch it on June 2006.

Task 3.3.1.1 Development of options to improve build-operate-transfer (BOT) contract governance

USAID approved the request for TA to the DTI/BOT Center to help draft amendments to the BOT Law on January 9, 2006. The EMERGE consultant team, headed by Prof. Dante Canlas of the U.P. School of Economics, started work on the requested assistance by conducting interviews and round table discussions in Cebu and Davao Cities with key informants on the experience with the implementation of the current BOT law. The team submitted a technical memorandum on its initial findings, which highlighted, among other things, the following key issues: (a) the need to ensure project quality at entry; (b) the important oversight function of NEDA-ICC; (c) the need for consistency of BOT incentives with the existing incentives framework of the government; and (d) the need to improve contract writing and to reform the regulatory framework for BOT projects. In the next quarter, the EMERGE team expect to finish the rest of the interviews of key informants, analyze the information and data gathered, review the draft bill to amend the BOT law filed by Rep. Salceda, and recommend specific amendments to the current BOT law.

Task 3.3.2.1 Formulation of strategies for the privatization of state-owned enterprises

Task 3.3.2.1b Inventory of government assets for privatization. No movement in the proposed TA because the DOF Privatization Office (PO) has not yet interviewed the candidate consultants.

Task 3.3.2.1c Privatization of certain government assets.

USAID approved the TA request for 3 advisors to help DOF/PO with the privatization of certain government assets. Undersecretary Singson gave each of the consultants (Ray Davis, Sunny Sevilla and Job Ambrosio) specific assignments. Sunny Sevilla's main tasks concern the financial aspects of privatization affecting PNCC, Al Amanah Islamic Bank, Iloilo Airport, IBC-13, Philippine Postal Corporation, and RPN-9. Job Ambrosio will handle the legal aspects of privatization. Ray Davis assists in the privatization of the MWSS interest in Maynilad, Nonoc Mines, and Al Amanah Islamic Bank. These consultants assisted the DOF Privatization Office by reviewing various legal and financial documents, attending meetings with government agencies and financial advisors on the privatization efforts of the government, reviewing the financial position of government corporations and assets to be privatized and providing general advice on various issues. In the next quarter, the EMERGE team will continue with their advisory work focusing on various financial and legal requirements in privatizing government assets.

Task 4.1.1.1 Technical Assessment of saving patterns and behavior

With the approval by USAID of the terms of reference for conducting an assessment for BSP Deputy Governor Nestor Espenilla of saving patterns and behavior of Philippine households, EMERGE hired Dr. Lisa Grace Bersales and Mr. Dennis Mapa, Sr., on March 6, 2006. The mobilization was timely since the National Statistics Office has a definite timeframe for conducting the Family Income and Expenditure Survey (FIES) this October. If the consultant team identifies questions which need to be included in FIES as riders, there is time to get them into this year's survey. In their few weeks of work, the consultants:

- reviewed the literature on saving in the Philippines and elsewhere;
- interviewed experts in the banking sector and researchers who have worked on saving data; and
- identified available data for the empirical tests that can generate a profile of saving behavior at national and sub-national levels.

Next quarter, the consultants plan to meet with Espenilla with a preliminary report to ensure he approves of the direction they are taking. One question is on the possible need of a supplemental survey other than FIES. The consultants should complete a draft of their final report this coming quarter.

Task 4.1.1.2b&c Defining the Philippine Capital Market Reform Agenda

BSP Governor Tetangco and Deputy Governor Espenilla indicated their concurrence with the structure and contents of the draft SOW for this task at a February 22 meeting with Ramon Clarete. The SOW calls for an integration of the previously planned modules 2 & 3. The other two counterparts, Mr. Leonilo Coronel (BAP Executive Director) and Mr. Jing Crisol (President of PDEX) supported this approach as well. Mr. Crisol suggested that representatives of the various sub-markets of the sector be asked to submit position papers on what they perceive to be the impediments in the market and how they propose to address them.

Next quarter, EMERGE will submit for USAID approval the terms of reference of this task and, with approval, commence its implementation.

Task 4.1.1.3b Policy Review of Financial Sector Taxation

In this quarter, the consultants worked on the second phase of their engagement (i.e., comparisons with other countries). The Financial Taxation Team focused on securing an accurate and up-to-date picture of financial sector taxation in the jurisdictions of Hong Kong, Singapore and Thailand. It

prepared a questionnaire and matrices and transmitted them to its correspondent firms in Hong Kong, Singapore and Thailand. This will give an accurate and up-to-date picture of the financial sector taxation in those jurisdictions and confirm the Team's initial research on this area. The team incorporated the information gathered into the report. With that work completed, the consultants submitted a complete draft report for EMERGE review by the Banking and Capital Markets Team Leader, Dr. Ravalo. This draft expands on the interim report by providing more details on the cross-cutting issues (Part 2) and presents a whole new section (Part 3) on comparisons with Hong Kong, Thailand and Singapore. Early next quarter, the consultants will present their report to the Tax Concerns Committee of the Capital Market Development Council. With that, EMERGE will have completed this task.

Task 4.1.2.1 TA to the Financial Sector Forum (FSF) to harmonize the supervisory framework of the financial market

EMERGE did not receive any TA request from the FSF in this quarter.

Task 4.1.2.2 TA to the Securities and Exchange Commission (SEC) to enhance the regulation of the securities market

EMERGE did not receive any TA request from the SEC in this quarter.

Task 4.1.2.3 TA to the Philippine Deposit Insurance Corporation (PDIC) to develop its risk management and regulatory capacities

EMERGE sent a draft terms of reference to PDIC for a TA task to enhance its off-site bank rating model (OBRM). The draft benefited from a meeting between PDIC and EMERGE in December 2005. EMERGE also started searching for the appropriate consultants to do the work: an econometrician and financial market expert. The planned start of this got delayed when PDIC Senior Vice President Mel Villegas and her staff asked to meet with EMERGE again to discuss the feasibility of additional components of the TA package. They asked to bring in an FDIC or US Fed consultant to give them guidance on their operations as an attached activity under the proposed OBRM TA. EMERGE explained that such a visit is not necessary for the OBRM enhancement nor is it feasible on the part of the project. It was agreed then to proceed on the basis of the existing draft TOR. Next quarter EMERGE will work with PDIC to identify the resource persons and submit the proposed TA for USAID approval.

Task 4.1.2.4 TA to the Bangko Sentral ng Pilipinas Supervision and Examination Sector (BSP/SES) to develop and strengthen the financial governance of the banking sector

In response to DG Espenilla's request, EMERGE arranged the meeting between BSP, Bureau of Trade Relations and Consumer Protection (BTRCP) and EMERGE on the implementation of the roadmap towards the harmonization and transparency of procedures for valuing real estate properties in the Philippines. Through DTI, EMERGE contacted BTRCP Director Victorino Dimagiba. This meeting was set for early next quarter.

Task 4.1.2.5 TA to BSP Department of Economic Research (DER) on Inflation Targeting and Monetary Policy

In this quarter, EMERGE purchased the Matlab software from TechSource and delivered it to the Bangko Sentral ng Pilipinas. The Delivery Receipt is in the name of BSP while the invoice was issued to EMERGE. The software will be used by the Research Department of BSP to model the output gap in support of the monetary policy of targeting an inflation rate.

EMERGE consultant, Paul McNelis, visited the Research Department of BSP, under Francis Dakila, for two weeks in March. BSP's capacity to use the software has improved. The staff involved has been expanded to six full time researchers working on the macroeconomic modeling project for inflation targets.

In this trip, McNelis worked with the staff in the use of Matlab as well as the DYNARE module for simulating and doing Bayesian estimation of such models. They used several versions of a prototype regional model, which he obtained from the European Central Bank. The model is called the Smets-Wouters Euro Area Regional Model (known as SWEAR), as well as data used the European Central Bank for estimating this model with Bayesian methods. He provided the BSP staff the documentation of this model.

McNelis will return in mid-July. The priority now should be to identify and build up a model for the BSP. Paul suggested that the staff start with the open-economy limited participation model used by the Bank of Canada, developed by Scott Hendry, Wai-Ming Ho, and Kevin Moran.

Task 4.1.2.6 TA to the Insurance Commission (IC) to improve its regulatory and operational efficiency

Work in this quarter involved working with Insurance Commissioner Evangeline Escobillo to prioritize her TA requests. The Commissioner confirmed that the automation of the Commission is her most urgent priority. It was agreed that the SOW would involve an audit of the business processes within the Commission and the crafting of a corresponding plan for automating the generation and handling of information within departments of the IC and between the IC and the public/covered institutions. Comm. Escobillo, however, requested that the SOW indicate that the deliverables be completed by May 2006, as the Commission would need to spend her budget for this purpose, which requires the plan. Commissioner Escobillo also requested third party consultants to review the completed drafts for (a) risk-based supervisory framework, (b) uniform chart of accounts and (c) new insurance code. Lastly, there is the request for an awareness campaign (for the public and covered institutions/agents), training workshops (both for IC staff and regulated firms/agents) and in-house monitoring for compliance.

Next quarter, EMERGE will gather information from DBM on how to get the Commission's automation plan internally funded. It will also gather information on the extent of work required to review the existing drafts.

Task 4.1.2.7 TA to the Department of Finance to enhance its capital market initiatives and its oversight over GOCCs and GFIs

In this quarter, EMERGE responded to the TA requests of the Corporate Affairs and the Domestic Finance Groups of the Department of Finance. These requests include:

- (a) Review the one-percent guarantee fee which the national government charges on GOCC commercial borrowings. The credit and market risk involved is seen to be under-priced. DOF Usec. Singson needs to know by how much and what are its options to correct the problem.
- (b) Assessment of revenue impacts of the "tEE" tax incentive scheme in the proposed Personal Equity and Retirement Account (PERA), which the Senate Committee of Banks proposes.
- (c) Identifying the options for developing the Asset-Back & Mortgage-Back Securities markets.
- (d) Assessment of risks of LGU borrowings.

Next quarter, EMERGE plans to work with DOF to identify the specific TA activities of two of the above requests, (a) and (b).

Task 4.1.3.1 Defining the Standards and Infrastructure for Cash & Retail Payments

EMERGE met with both Gov. Tetangco and DG Espenilla, who affirmed the importance of this task to them and requested to be updated on its developments. Next quarter, EMERGE will ask for USAID approval of this task.

Task 4.2.1.1 TA to develop local government unit (LGU) financing (formerly Task 3.3.1.1)

After USAID approval of this task on January 9, EMERGE consultants have completed most of the drafting of the PROLEND manual in this quarter. The team gathered the documents and information from the Municipal Development Fund Office (MDFO). They interviewed several government officials, including MDFO Executive Direct Helena Habulan. At MDFO's request, the team accompanied its negotiating team to the Province of Surigao del Norte to assist in negotiations for a second PROLEND loan. The application of the Province was pending since the fourth quarter of 2005 and had to be addressed even before the completion of the manual. The team also coordinated with League of Provinces Executive Director Jojo Villano to identify a date for the presentation of the PROLEND facility and proposed policy reform menu to the League's board. During the next quarter a consultative forum on the draft PROLEND manual will be held in Manila. Selected governors and members of the League of Provinces will be invited to the forum, with MDFO and EMERGE sharing the costs.

EMERGE discussed with Monetary Board Member (MBM) Nitz Amatong her suggestion to set up a mechanism to screen LGU fund raising activities similar to the NEDA-ICC for national government public investments. In the next quarter, EMERGE will continue its discussion with Ms. Amatong and on the basis of the information gathered draft a terms of reference of the TA activity. EMERGE adjusted its work plan to reflect this suggestion of Ms. Amatong, who is in the TIERG/EMERGE Policy Advisory Committee. It also incorporated Secretary Romulo Neri's comment to undertake an assessment of how LGUs fared after issuing bonds or incurring debt from financial institutions.

Task 4.2.1.2 TA to develop the rural and micro finance markets

EMERGE hired Dr. Mario B. Lamberte to assess the Credit Policy Improvement Program (CPIP), which provided technical assistance to its Philippine counterparts from November 1996 to February 2006. The consultant interviewed the contractors including Dr. Geron and participants of the program, as well as the members of the National Credit Council (NCC). The NCC is the key counterpart of the program. Key documents produced by CPIP were also reviewed. Dr. Lamberte will complete this task during the next quarter and EMERGE will consider further TA in rural and micro finance based on his findings and recommendations.

Task 4.2.2.1 TA to the Philippine Dealing System Holdings Corporation (PDS Group) to institutionalize the fixed income exchange (the Philippine Dealing and Exchange Corporation, or PDEx)

USAID asked for additional information about this task and EMERGE conducted a briefing. At USAID's request, EMERGE organized a meeting between PDS officials and USAID/OEDG chief Dr. Bob Wuertz and EMERGE CTO Ms. Tet Robielos. PDS officials attending the meeting included PDS President Teng Castillo, PDEx President Jing Crisol and PDS Managing Director Mike Andaya. The purpose of the meeting was to gather information from the PDS officials regarding their request for assistance to conduct an independent audit of the PDEx infrastructure.

This was a key recommendation of EMERGE consultant Valerie McFarlane. USAID has yet to act on this TA request.

TASK 2 - Administration of Grants to NGOs and Nongovernmental Research Institutions

The EMERGE Grants Manual was approved by USAID on February 17, 2006.

Grant Activity: Access for Competitiveness and Trade (ACT)

The EMERGE Grants Review Committee conducted a review of the third revision of the ACT proposal on February 13. The revised proposal lacked the details of some of its proposed activities and as a result, the Committee asked PACT to resubmit a proposal only for Phase I, which involves development of industry sector papers and trade negotiation briefs.

Grant Activity: Assessment of the current system of motor vehicle registration, land public transport franchising, insurance and taxation, and developing recommendations to improve the system.

EMERGE, upon USAID approval on March 20, 2006, awarded a Fixed Obligation Grant (FOG) to the Scientific Research Foundation of the Asian Institute of Management (SRF/AIM) to conduct an assessment and make recommendations on the system of operations of the Land Transportation Office (LTO) and the Land Transportation Franchising and Regulatory Board (LTFRB). The activity aims to improve the collection of taxes and fees from land transportation franchising, motor vehicle registration and insurance, and to reduce transaction costs and business risks in the registration and insurance of motor vehicles, and franchising and insurance of land transportation. The participating government agencies are the LTO, LTFRB, BIR and the Insurance Commission. Work on the assessment by the technical team composed of experts from AIM and De La Salle University will start in April.

Grant Activity: Investment Climate Improvement

Following USAID approval on February 22, EMERGE awarded a simplified grant to the American Chamber of Commerce (AmCham) of the Philippines to implement activities to identify and communicate to the Philippine government policy and legal reforms that will facilitate new investment and generate more employment.

Grant Activity: Government Restructuring

EMERGE reviewed an unsolicited proposal from EPRA on “Strengthening the governance of the Department of Agriculture towards a more efficient and responsive support services for the rural poor.” The proposal needs to be rewritten to focus on the specific activities for which funding is requested and to consolidate other information in an annex. In addition, the committee found the proposed outputs not measurable.

Grant Activity: Mining

The letter communicating the results of the EMERGE Committee review was sent to PACT on February 8. As of the end of this reporting period EMERGE has not received a revised proposal.

TASK 3 - Administration of the Special Activities Fund (SAF)

Customs Risk Assessment

A final valuation of the vendor’s complete deliverables prior to a PO pre-termination was agreed between CEPR and EMERGE on January 26. The PO to CEPR was pre-terminated after the technical acceptance of the revised third tranche deliverables. CEPR delivered 63.5 % of the total value of the PO, and final payment was made to CEPR on January 27.

Fiscal Sustainability

Training on International Financial Reporting Standards (IFRS). This activity is about training BIR officers and staff on the Philippine Financial Reporting Standards and their tax implications in a way that is consistent with the National Internal Revenue Code. EMERGE will provide TA to the BIR through an audit firm that is competitively selected. A selection committee composed of members from the BIR and EMERGE selected the vendor to undertake the training program on March 8. Negotiations with the selected vendor were on-going during March.

Enhancement of the DBM Website. This TA to the DBM aims to help it enhance its website by publishing in it logically organized information regarding government infrastructure and development projects (e.g. physical description, budget appropriation, fund releases, status and results). A selection committee composed of members from the DBM and EMERGE selected the winning bidder on March 13, after then DBM Secretary Neri asked the activity to be put on a fast track. Pending USAID approval of the activity, negotiations with the winning bidder were put on hold.

On Trade and Investment

Streamlining SPS Administration. The PO to C. Virata and Associates on the SPS was amended to reflect a no-cost extension until January 31, 2006, by when all deliverables and reports were expected to be completed.

Standards and Conformance Portal. This technical assistance to the Bureau of Product Standards is expected to improve the access of Philippine exporters to the global market by increasing their knowledge of and compliance with product technical regulations and standards. The TOR is in its development stage, and inputs are being provided by EMERGE not only on the technical, but also on the contracting and budgeting aspects.

WTO e-learning. The subcontract to IATP was amended on March 10 to reflect specific deliverables and to restructure the payment tranches.

Compliance to Kyoto Convention. EMERGE has agreed to share the costs of acquiring the services of the Parayno Consulting Group to help prepare the Philippines to be compliant with the Kyoto Convention. Specifically, EMERGE has agreed to fund two of the proposed activities in the Parayno proposal, 1) the current situation questionnaire for each of the cited Team of Technical Experts (TTE) together with the corresponding three levels of analysis, and 2) development of the table of Applicability, Compliance and Non-Compliance, Gap Analysis and Recommended strategy for all the standards and recommendations of the Revised Kyoto Convention. PACT/Philexport will cover the professional fees of the experts under the Parayno Consulting Group. Initial budget reviews were conducted during the quarter but were halted pending USAID approval of the payment rates for the experts needed by PACT/Philexport in its subcontract with the Parayno group.

Widening of the Localization of the National Export Congress. PACT requested EMERGE to share the costs of Export Development Council (EDC) activities to widen the localization of the National Export Congress in ten more regions. The activity will involve conducting dialogues and forums at the local level to translate the national commitments of the National Export Congress into local commitments to meet the targeted exports. The activity was approved by USAID in February, and work was immediately started by the project team led by EDC.

APEC Conference on Biosafety. The APEC Summit on Biotechnology was held on January 16-17. EMERGE provided support to the event by sharing in the logistics cost.

e-Service Philippine Outsourcing Conference. With PACT/Philexport, EMERGE shared the cost of funding speakers from India, UK and USA for the “eServices Philippines Outsourcing Conference 2006,” a February 16-17 event that gathered about 100 Philippine IT-enabled service providers and 2,000 trade visitors belonging to different e-services sectors to meet and establish business relationships. USAID approval was received on January 31.

Proposed SAF Activity: Re-forestation/Agroforestry

PACT presented its proposed terms of reference (TOR) for TA to help implement and institutionalize the National Agro-forestry Puno ng Buhay Program in the Autonomous Region of Muslim Mindanao (ARMM) to an informal USAID group on January 6, 2006. After considerable discussion during and subsequent to this presentation, USAID decided not to help finance this activity due to uncertainties it perceived in the plans as presented.

TASK 4 - SO2 Monitoring, Assessment, Reporting

The SO2 Monitoring Manager resigned for a higher paid, full-time job at the end of November 2005. EMERGE interviewed several prospective candidates to replace him and made a selection, and at the end of this reporting period we were collecting the necessary documents for USAID approval.

TASK 5 - Public Information and Consultations

The Public Information Manager wrote, edited and submitted the following success stories:

- EMERGE contribution in the issuance of EO 170-B which encourage private port owners to open up their facilities to commercial cargoes.
- EMERGE assistance in the issuance of the Insect Resistance Management IRR issued by the Department of Agriculture.
- EMERGE assistance in the development of Performance Monitoring System of the BIR
- EMERGE assistance in the set-up of community e-center in Manolo Fortich which provides facilities to facilitate employment for locals

He has been monitoring news media for the EMERGE project, clipping news articles related to EMERGE project activities and news items about EMERGE TA to counterparts. The news monitoring program will enable EMERGE team leaders to respond to issues that may have a bearing/effect on their TA activities with counterparts and to propose solutions to possible problems that may crop up on EMERGE-related issues.

The Public Information Manager attended one of the forums of the Biotechnology Council of the Philippines (BCP) to review BCP’s performance in its information, education and communications (IEC) activities.

He assisted IATP/Earth Council get more participants to the online course on WTO by facilitating participation of media personalities; a number of invitations were sent to various media entities to inform them about the free online course on WTO.

5) Statement of Work: No change in the contract statement of work was made during this quarter.

B. Administrative Information

Since the Project Contract is a performance based, rather than a level-of-effort based, contract, administrative information is not required or reported.

EMERGE Project, CScallison, COP, 28 April 2006

Section II - PROJECT OFFICER'S COMMENTS (optional)

Project Officer/Office Symbol _____ **DATE:** _____

Section III - CONTRACT OFFICER'S COMMENTS (optional)

Contract Officer/Office Symbol _____ **DATE:** _____



USAID
FROM THE AMERICAN PEOPLE



MEMORANDUM

DATE: April 28, 2006

TO: Ms. Maria Teresa Robielos, EMERGE CTO, USAID/OEDG

FROM: C. Stuart Callison, Ph.D., Chief of Party, EMERGE Project

REF: Contract # AFP-I-00-00-03-00020 Delivery Order 800

SUBJECT: EMERGE Project Quarterly Report –January 1 to March 31, 2006

Attached for your review is the complete EMERGE Project's 6th Quarterly Report, including the quarterly expenditure report, covering the period January 1 to March 31, 2006, in compliance with Section 7.1.3 of the referenced contract. A hard copy is being delivered for your files.

May I take this opportunity to congratulate USAID/Philippines for designing the most effective economic policy reform project I have ever been associated with during my 21-year career as a USAID development economist and subsequent 10 years as chief of party of USAID economic policy reform projects. After bringing most of its economic policies in line with international best practices, the Government of the Philippines needed flexible technical assistance to help it tweak those policies (and a few of the laws behind them) here and there, but mostly to implement them effectively. USAID designed its TIERG Program and the EMERGE Contract to provide the professional advice requested by various government agencies to do just that, responding in a proactive way to their needs for assistance with next steps as they become apparent—and responding mostly with host-country consultants, so that USAID is truly helping the Filipinos help themselves. This is an especially important feature of the project, since the public is so suspicious of possible ulterior motives on the part of its former colonial ruler, a fact spuriously used by vested interests against the reforms when the public good clashes with private interests of a few.

Policy implementation is a tedious, time-consuming and detail-oriented business; but all major economic sectors must be brought along together if the ultimate goals of more rapid economic development are to be achieved. Sufficient government revenues must be collected to finance essential public services and infrastructure, and public expenditures must be efficiently allocated to priority purposes. Public infrastructure needs must be prioritized and properly financed. The climate for private investment must be made attractive to domestic and foreign investors alike and competitive with alternative investment opportunities in other countries. And banking and capital market institutions must be able to attract savings and allocate investment funds toward activities with the highest rates of return. USAID has designed the TIERG Program to address

all of these intertwined areas of economic policy concern, and it is turning out to be a very effective, demand-driven effort, much appreciated by our high-level counterparts throughout the economic agencies of the government.

I have long believed that the relatively small amount of resources USAID and other foreign donors spend on economic policy reforms are among the most productive uses of such funds, since well-designed economic policies direct all the resources available to a country—domestic as well as foreign, private as well as public—into their more productive uses, and domestic investment resources are always much greater than foreign, private investment resources much greater than public.

Again, my hearty congratulations for such a well-conceived and well-designed program. I feel privileged to be a part of it.

Atch: a/s